THE NEXT STEPS FOR THE PAYCHECK PROTECTION PROGRAM

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS UNITED STATES HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTEENTH CONGRESS

FIRST SESSION

HEARING HELD
MARCH 10, 2021

Small Business Committee Document Number 117–005
Available via the GPO Website: www.govinfo.gov

U.S. GOVERNMENT PUBLISHING OFFICE
43–606 WASHINGTON : 2021

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THE NEXT STEPS FOR THE PAYCHECK PROTECTION PROGRAM

WEDNESDAY, MARCH 10, 2021

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 10:07 a.m., in Room 2360, Rayburn House Office Building, Hon. Nydia M. Velázquez [chairwoman of the Committee] presiding.

Present: Representatives Velázquez, Golden, Davids, Mfume, Phillips, Newman, Bourdeaux, Chu, Evans, Delgado, Houlahan, Kim of New Jersey, Craig, Luetkemeyer, Williams, Hagedorn, Stauber, Meuser, Tenney, Kim of California, Van Duyne, Donalds, Salazar, and Fitzgerald.

Also Present: Representative Schneider.

Chairwoman VELÁZQUEZ. Good morning. I call this hearing to order.

I want to make sure to note some important requirements. Let me begin by saying that standing House and Committee rules and practice will continue to apply during hybrid proceedings. All Members are reminded that they are expected to adhere to the standing rules.

House regulations require Members to be visible through a video connection throughout the proceeding, so please keep your cameras on. Also, please remember to remain muted until you are recognized, to minimize background noise. If you have to participate in another proceeding, please exit this one and log back in later.

In the event a Member encounters technical issues that prevent them from being recognized for their questioning, I will move to the next available Member of the same party. I will recognize that Member at the next appropriate time slot, provided they have returned to the proceeding.

For those Members physically present in the committee room today, we will also be following the health and safety guidance issued by the attending physician. That includes social distancing and especially the use of masks. Members and staff are expected to wear masks at all times while in the hearing room, and I thank you in advance for your commitment to a safe environment for all here today.

One year ago today, during the early stages of the pandemic, this committee held our first hearing on the impact of COVID on small businesses. Since that hearing, our committee has been working relentlessly to get them the aid they need to make it through this crisis.

One of Congress' earliest and most effective means of distributing relief to small businesses was through the Paycheck Protection Program. Congress created PPP through the CARES Act to provide fully guaranteed, forgivable loans to meet payroll costs and other business expenses.

Today, PPP is still providing urgently needed funding. The program accepts applications for first- and second-draw loans, and has approved 2.1 million loans, totaling $156.2 billion during 2021.

The high level of demand for PPP loans is a testament to the program's effectiveness and the lingering impact of the pandemic. It is clear that small businesses still need help, but lingering issues in the program have led to the need for Congress to consider a short-term extension beyond March 31.

Across the country, case counts, hospitalizations, and deaths are trending in the right direction. At the same time, we are vaccinating millions of Americans daily. This is cause for optimism, but it does not mean this crisis is over.

The pandemic has caused unprecedented harm for small businesses, and it would be a mistake to withdraw support abruptly. Congress must work to understand the current realities facing small business owners and extend PPP to meet their needs.

We also continue to address the persistent issue of inequity within the program. In the beginning, larger businesses with ties to big banks received loans at the expense of the smaller businesses. We have instituted numerous reforms to empower community lenders to spread relief to underserved businesses.

The Biden administration also took decisive action to get funding to small businesses that had previously been neglected. On February 22, President Biden announced the implementation of a 14-day exclusivity window for small businesses with fewer than 20 employees. The President also acted to get more money to sole proprietors, make formerly incarcerated individuals and those with federal student loan delinquencies eligible for PPP, and clarified the use of ITINs.

I am pleased to report that these changes have been effective in getting money to smaller businesses. According to the Biden administration, there has been a 20 percent increase in loans approved to minority-owned businesses, a 14 percent increase in loans approved to women-owned businesses, and a 12 percent increase in loans approved to businesses in rural areas.

During the exclusivity period, the SBA has served more than 400,000 small businesses with fewer than 20 employees, nearly 200,000 of which are first-time PPP borrowers. This is meaningful progress and a sign of the impact that delivered reforms can have on businesses that are often neglected.

Today's hearing is timely. I hope that it will give us the opportunity to examine the impact the Biden administration reforms have made on small business owners and lenders and help us identify ongoing challenges we continue to hear about from borrowers and lenders alike. I look forward to hearing from our panelists about the current state of PPP and their recommendations on the program's future.

And now I would like to yield to the Ranking Member, Mr. Luetkemeyer, for his opening statement.

Mr. LUETKEMEYER. Thank you, Madam Chair, and thank you for calling this hearing on this very important topic.

The title of this hearing is “The Next Steps for the Paycheck Protection Program.” This is a particularly important topic, given the fact that the PPP is set to expire on March 31, just 3 weeks from today.

I am interested to hear from the panel before us on how lenders and businesses view the program, areas that should be improved, and how to adjust the program moving forward. While discussion on the next steps is critical, I want to reiterate how successful this program has been to date.

With the State and local shutdowns sweeping the Nation to protect against the COVID-19—the spread of COVID-19, the Small Business Administration and the Department of the Treasury implemented the PPP in a matter of days.

From the day it opened in early April to the day it concluded on August 8, 2020, the first round of PPP provided just over 5.2 million loans, totaling $525 billion, with loans averaging approximately $100,000. According to the SBA, more than 50 million small business jobs were either saved or assisted by the PPP through the program’s first round in 2020.

The latest round of PPP includes a second-draw loan for businesses still struggling with the pandemic and has provided approximately 2.4 million new loans for $164 billion. The average loan for the second round is just under $70,000.

Despite the success of the PPP, this program was always meant to be temporary. As a reminder, the PPP was created under the CARES Act, which was signed into law by former President Trump on March 27, 2020. The program’s current end date on March 31, 2021, marks almost exactly one year to the day from when it opened.

Across America, we are seeing vaccines in arms and lockdowns being lifted. These actions are allowing businesses the ability to start turning the corner and recover. The latest statistics from the SBA on the PPP reiterate these facts, as the demand for PPP loans has slowed.

Additionally, the SBA has informed lenders that on the March 31 deadline, the SBA will stop processing loans, which is very concerning. This means that even if a small business files the application and a lender submits it to the SBA before the deadline, the SBA will stop any and all processing of the loan on March 31

I have spoken to many lenders on this issue, and instead of taking applications that will never be processed by the SBA, they are planning to shut down the PPP lending until—entirely before the March 31 deadline.

While the PPP has been a bipartisan product throughout its tenure from the CARES Act, PPP Flexibility Act, and the December COVID package, my colleagues on the other side of the aisle decided to make the latest COVID relief package a strictly partisan process. In their partisanship, they passed legislation that did not extend the PPP deadline, despite adding over $7 billion in funding to the PPP and increasing the applicant pool of the program. The end result of this is the passage of a bill seeking to beef up a program that is already winding down and will end shortly.

Given these realities, I look forward to the hearing from the panel—to hearing from the panel today regarding what changes we need to make within the program and what steps Congress needs to take.

Congress has important decisions to make, and it is my hope that this hearing will assist us as we tackle the topics of small business relief and small business recovery.

With that, Madam Chair, I yield back the time. And I also thank the witnesses for being with us this morning.

Chairwoman VELÁZQUEZ. Thank you, Mr. Luetkemeyer.

I would like to take a moment to explain how this hearing will proceed.

Each witness will have 5 minutes to provide a statement, and each Committee Member will have 5 minutes for questions. Please ensure that your microphone is on when you begin speaking and that you return to mute when finished.

With that, I would like to introduce our witnesses.

Our first witness today is Ms. Hilda Kennedy, Founder and President of AmPac Tri-State CDC in Ontario, California. AmPac CDC is a nonprofit certified lender of the U.S. Small Business Administration working to finance the growth of small businesses. AmPac has provided funding to over 135 with greater than $200 million in loans under Ms. Kennedy's direction.

Our second witness is Ms. Lisa Bombin. Ms. Bombin is the President and CEO of Unico Communications, Inc., in San Antonio, Texas. Unico Communications is a Latino-owned micro business operating in the events space. With assistance from the PPP and EIDL programs, she has been able to adapt her business to the changing reality of her industry and avoid layoffs.

Our third witness is Ms. Lisa Simpson, Vice President of Firm Services at the American Institute of CPAs. Ms. Simpson leads the Private Companies Practice Section team at AICPA and works on the development of practice management tools that address topics most important for accounting firm owners.

I would now like to yield to Ranking Member Mr. Luetkemeyer to introduce our final witness.

Mr. LUETKEMEYER. Thank you, Madam Chair.

Next witness is Ms. Alice Frazier. Ms. Frazier is the president and chief executive officer of the Bank of Charles Town in Charles Town, West Virginia. She also holds several positions at the Independent Community Bankers of America, which is also known as ICBA, and, today, she is testifying on its behalf.

At ICBA, she is currently the organization's secretary on the board of directors and Chair of the Policy Development Committee. With the Bank of Charles Town participating in both the first and second rounds of PPP, along with her numerous roles of ICBA, I look forward to hearing Ms. Frazier's perspective on the program as well as what Congress should be concentrating on over the next few weeks.

Ms. Frazier, I would like to thank you and the other witnesses for joining us today, and I anticipate a thoughtful, informative discussion.

Thank you very much.

Chairwoman VELÁZQUEZ. Thank you, Mr. Luetkemeyer.

I welcome all the witnesses, and thank you for taking time to be with us today.

Ms. Kennedy, you are now recognized for 5 minutes.

STATEMENTS OF MS. HILDA KENNEDY, FOUNDER AND PRESIDENT, AMPAC TRI-STATE CDC, DBA AMPAC BUSINESS CAPITAL, ONTARIO, CA; MS. LISA BOMBIN, PRESIDENT AND CEO, UNICO COMMUNICATIONS, INC., SAN ANTONIO, TX; MS. LISA SIMPSON, CPA, CGMA, VICE PRESIDENT OF FIRM SERVICES, AMERICAN INSTITUTE OF CPAS, DURHAM, NC; MS. ALICE FRAZIER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, BANK OF CHARLES TOWN, CHARLES TOWN, WV

STATEMENT OF HILDA KENNEDY

Ms. KENNEDY. Thank you, Chairwoman Velázquez, Ranking Member Luetkemeyer, my Congresswoman, Judy Chu, and distinguished members of the Committee. Good morning, and thank you for having me today.

My name is Hilda Kennedy, and I am the founder and president of AmPac Tri-State CDC. We are based in Ontario, California. I am thrilled to have the opportunity to tell you about AmPac and our participation in the Paycheck Protection Program, our commitment to providing access to capital to underserved borrowers, and policies that could help the Committee in determining next steps.

AmPac was established and approved as the first faith-based CDC committed to helping businesses in economically disadvantaged communities and committed to walking hand-in-hand with businesses throughout the lending process. I founded AmPac in 2005, became a CDC in 2007, and a micro lender and CDFI just 4 years ago.

Today, we have helped small businesses obtain more than half a billion dollars in SBA 504 loans and served start-up, emerging, and scaling small businesses with SBA microloans and CDFI loans, and partnered with several local governments to help small businesses.

In the last year, we also served the Paycheck Protection Program, but getting started was not without its challenges. At first, we had to be approved as SBA lenders for PPP. Then when Congress identified community financial institutions, or CFIs, to provide needed PPP funding—lending, CDCs, CDFIs, and microloans, AmPac stepped in with a firm commitment to help the smallest of businesses with loans under $50,000.

I want to publicly thank my Congresswoman, Judy Chu, for helping us to get attention on the issue of establishing guidelines for CFIs to start lending. As nonprofit lenders, CDCs also face liquidity issues. The availability for CFIs to lend through the Federal Reserve liquidity facility, which the Fed just extended—thank you—has been a lifeline for participating CDCs to continue to deliver PPP loans.

Being designated as lenders for PPP and addressing the liquidity issues were two of the major barriers to nonbank lenders participating in PPP. Once we got underway, AmPac funded 171 loans, totaling over $3 million, with an average loan size of $17,000.

And to put a face on these numbers, I am reminded of Leticia. She got a loan for a party planning business for $2,875, and you would have guessed she got a million dollar PPP loan. She came to us saying, You have no idea what this means to my family.

When we reached out to Leticia regarding the Schedule C changes for a second draw, Leticia qualified for a $20,000 PPP loan.

In my written testimony, I shared a story about Calvin, a custodial maintenance company, who had been rejected and waitlisted by every emergency relief program. But when the Schedule C qualifying calculation changed, Calvin qualified for a $13,000 loan. He said, Hilda, I can't believe somebody finally said yes. He is now able to pay his employees and keep his business afloat.

We have many Calvins and Leticias in our community, and I know several of my colleagues do as well. So many of the Schedule C filers missed the opportunity for a higher PPP loan in the first round and are in danger of missing out on this round of funding. Since it took until March 3 to get the new forms, time is not on our side. These businesses need a little more help, and they are willing to do the work. Calvin and Leticia are among the 95 percent Black and 91 percent Latino Schedule C filers who need this relief, and we need time to serve them.

As PPP comes to a conclusion, long-term recovery is top of mind, and we believe community advantage is a critical tool, especially for targeting businesses in underserved communities, and to help PPP stabilize businesses' growth. SBA needs to move forward to approve qualified lenders ready to serve.

As I conclude my comments, I want to thank the Committee for the impactful aid to SBA's small business borrowers via debt relief payments. Unfortunately, as you know, there is a shortfall in this aid. I cannot overstate the fact that these payments are critical for these small business borrowers. AmPac and my CDC colleagues across the country and in your communities are here and available to serve small businesses, to help them recover, and to support their growth.

I sincerely appreciate the opportunity to testify this morning and share AmPac's experience with the PPP program and our mission to serve underserved borrowers. I look forward to answering any questions you have.

Thank you.

Chairwoman VELÁZQUEZ. Thank you, Ms. Kennedy.

Ms. Bombin, you are now recognized for 5 minutes.

STATEMENT OF LISA BOMBIN

Ms. BOMBIN. Thank you, Chairwoman Velázquez and members of the Committee, for affording me a moment of your time to share my story as a Latina small business owner.

As the founder and owner of Unico Communications, a 16-year event production company and a Latina-owned business headquartered in San Antonio, Texas, I am proud to say the company has a solid reputation of producing large-scale events for the Nation's most reputable nonprofit organizations. And I am honored to represent a larger event industry that includes master storytellers, writers, planners, producers, audio and video engineers, caterers, and so many more magicians that worked tirelessly behind the scenes of our most memorable celebrations, concerts, conferences, and events.

The pandemic left my business, along with thousands of other event companies across the country, scrambling to develop a method to sustain my staff and execute payroll in the midst of so much uncertainty. The merciless effects of the resulting shutdown were evident in the swift volume of event cancellations that followed. Our business came to an abrupt halt. The only alternative was to suspend my own salary to retain as much cash flow, enabling us to keep our staff secure and fully employed for the immediate future.

After several emotional, exhaustive days of seeking a new business strategy and plan, we had a glimmer of hope when Congress established the Paycheck Protection Program in the CARES Act.

To say the initial rollout was problematic may be an understatement. When the application window opened, I, like so many other businesses, had been banking with a well-known national bank. And along with many small minority-owned businesses, we were left in the dark.

Our financial institution provided no method of submitting an application, instead offering only a landing page to stay tuned for more details. And I found myself seeing the hours slip away and feeling the anxiety rise in what folks like a random selection of some of my peers and fellow business owners who had confirmed their applications had been successfully processed at other banks. All the while, payroll deadlines loomed for my team.

After multiple attempts to submit our application, I contacted the U.S. Hispanic Chamber of Commerce to seek advice and technical assistance, and they recommended that I submit a PPP application through a small community bank, as they had been seeing an increased track record of successful submissions from other members across the country.

Furthermore, the USHBC was one of the few national organizations providing technical assistance in both English and Spanish to minority-owned businesses and worked with the SBA to have them translate their resources into multiple languages.

There wasn't a list of lenders from which to start. I brought in my husband to help research, and we began making calls and scouring the internet through the night to research local banks across our State to see if they would accept applications from new customers.

We were incredibly fortunate to have had success in submitting and securing a PPP loan in the amount of $26,900 through Pioneer Bank, a small Texas regional institution.

Sadly, not all businesses like mine were able to secure a PPP loan. There were more than 150,000 Latino small business owners that lacked the access to technology and guidance to resources in Spanish and, as a result, have succumbed to closure.

According to a study published by Small Business Majority, which service small and minority-owned business owners, one in three say the process of applying for the PPP was challenging due to the calculations and paperwork involved, and nearly one in four said that finding a lender willing to accept their application was challenging.

Now more than ever, small minority-owned businesses need the U.S. Small Business Administration and its portfolio of loans and technical assistance programs. Our business membership with the U.S. Hispanic Chamber of Commerce helped me navigate this convoluted process through the communications.

Furthermore, I received technical guidance from the University of Texas at San Antonio's Small Business Development Center and additional funding through the city of San Antonio's Recovery Grant Program facilitated by LiftFund, a community development financial institution.

These three entities were critical in my business success during one of the most unprecedented economic times in American history. If it had not been for the forgivable loans built into the CARES Act, our business would not have been able to survive, because we could not sustain more debt.

As a small business owner, I call upon our Members of Congress to expand PPP loans for our Nation's small and minority-owned businesses and to provide more support and financial resources to the SBA and the Minority Business Development Agency to fund critical, technical assistance in multiple languages through public-private partnerships with chambers of commerce and other business associations across the country.

Our road to recovery is still vast, and organizations like these need to be funded and sustained to continue helping businesses like mine navigate the ongoing economic crisis.

Thank you again, Chairwoman Velázquez and members of this Committee, for your leadership and continued legislative collaboration to ensure the economic survival of America's more than 30 million small businesses, of which 4.7 million are Hispanic-owned.

Chairwoman VELÁZQUEZ. Thank you, Ms. Bombin.

Now we recognize Ms. Simpson for 5 minutes.

Ms. Simpson, you are muted. You need to unmute yourself.

Ms. SIMPSON. Common for me. I apologize.

Chairwoman VELÁZQUEZ. Okay.

STATEMENT OF LISA SIMPSON

Ms. SIMPSON. Thank you again for the opportunity to talk about the Paycheck Protection Program on behalf of the American Institute for CPAs.

I am Lisa Simpson. I am the vice president of Firm Services. And in my role, I have been helping support thousands of small CPA firms and their business clients navigate PPP since the program launched last April.

I want to thank Congress, the SBA, and Treasury for the program and the lifeline that it has provided at a critical time. It helped so many businesses and nonprofits keep their employees on the payroll, keep the lights on, pay the rent, and position their businesses to succeed when the economy is ready to reopen.

In my testimony, I want to talk about how the accounting profession is helping PPP borrowers, review some of the major challenges within the system currently, and ask Congress to extend the PPP application period for at least an additional 60 days.

Many small business owners do not have accounting professionals in-house, so when PPP opened, they immediately turned to their CPAs or their trusted business adviser to help with the program. So to help the CPAs and their small business clients, we developed free resources, including loan amount calculators, loan forgiveness calculators, and we provided townhalls to allow for questions and answers to be submitted, to provide the latest breaking news on guidance and changes so that we could make these free resources available to the small business owner who maybe doesn't love accounting as much as I do. So we try to approach it from their perspective.

We also asked to engage with the SBA, Treasury, payroll providers, and lenders to create a holistic environment where we can talk about the challenges and areas where additional guidance might be needed.

There are current operational challenges, as you have heard about. When PPP reopened in 2021, the SBA implemented front-end compliance checks designed to limit and reduce the amount of fraud in the program. We support those reasons established to limit fraud and to protect taxpayer money. However, these challenges—these front-end compliance checks have created significant challenges for small business borrowers to be able to access the SBA system and to get their loans through the system and then to the approval process.

As we discussed, in written testimony, there are over 50 error codes and flags that can be difficult to decipher and resolve by both the lender and the borrower. Borrowers can end up being caught in limbo for weeks. We have heard of situations where borrowers have suffered as long as 6 weeks waiting for their application to either get into the system or make it through to the approval process.

One of those borrowers is Shawnetta (ph), who I spoke with several times. Her application was flagged. 2020 was a very difficult year for her. She survived COVID and cancer, but her loan application in 2021 was stopped. She ended up having to give up her warehouse space before her loan ultimately came through.

These flags and the error codes impact the smallest businesses and can trigger a loop where there is no way to get out. So we are asking for transparency and additional resources to resolve these error codes.

Recent changes to the program for self-employed borrowers are well intended to provide additional relief to the smallest of self-employed borrowers. However, changing a program midstream has caused anxiety, confusion, and delays in the process. The guidance was released in—March 3. Lenders are still working to update their system to enhance—to accept these changes, and now we are hearing that many borrowers—many lenders are simply closing their application windows because they need time to clear out the applications that are in process.

For these reasons, we are asking for that 60—at least a 60-day extension on the application window.

The changes for self-employed borrowers are not retroactive, and this is resulting in a situation where hundreds of thousands, perhaps as many as 2 million self-employed borrowers are not able to take advantage of this enhanced loan amount. So they are feeling like they have been left behind, and they are not able to get loans that our CPAs who support small and minority-owned businesses are saying $7- to $10,000 in additional loan amounts could make the difference in the survival of these small businesses and return the corner.

In addition to the complexities within the system, CPAs who are instrumental in helping their small business clients and not-for-profits navigate PPP are also dealing with counting around issues like the Employee Retention Credit, EIDL, the shuttered venue operator agreement, which we are still looking for guidance on.

So providing additional time will allow the CPA to work with small business borrowers to find the program that best suits their needs.

In conclusion, I would like to thank Congress and the SBA and Treasury for engaging in a conversation on how to improve this program, how to keep it going, and I urgently urge you to extend the deadline for at least another 60 days.

Thank you.

Chairwoman VELÁZQUEZ. Thank you, Ms. Simpson.

Now we recognize Ms. Frazier for 5 minutes.

STATEMENT OF ALICE FRAZIER

Ms. FRAZIER. Thank you, Chairwoman Velázquez, Ranking Member Luetkemeyer, and members of this Committee.

I am Alice Frazier, president and CEO of Bank of Charles Town, a $620 million asset community bank in the eastern panhandle of West Virginia, and we serve Hagerstown, Maryland, and Loudoun County, Virginia as well. Today, I am testifying on behalf of the Independent Community Bankers of America, where I serve as Chair of the Policy Development Committee and a member of the board of directors. Thank you for this opportunity to testify at today's hearing.

The PPP has been a lifeline for small businesses, churches, and other nonprofits in the communities we serve. My comments reflect conversations with hundreds of community bankers across the country.

Our firm was a natural fit in the business model of a community bank, as we are a small business lending specialist with deep roots in the communities we serve. My bank's PPP lending is typical of any community bank across this Nation.

In the first round, we made 557 loans. In the second round, we have seen approximately half the demand and have made 272 loans to date. In each round, about 85 percent of the loans were under $150,000, and more than half were microloans of less than $50,000. Our PPP lending has saved nearly 7,000 jobs so far and is really making a difference in the communities we serve.

Other community banks have had similar results. In fact, community banks made 60 percent of the first-round PPP loans, which supported over 33.7 million jobs. What is more, community banks made over 70 percent of the PPP loans to minority-owned and women-owned businesses, and over 60 percent of the PPP loans to veteran-owned businesses.

To obtain most of the value of this program for the communities we serve, BCT, Bank of Charles Town, like all community banks, is committed to conducting outreach to potential applicants. During the first round, we recorded podcasts and participated in local radio shows. In the second round, after learning that some minority communities lacked access to the program, we initiated targeted outreach to reach these communities.

In recent webinars, we sponsored with the local chapters of the NAACP. We encountered numerous businesses, churches, and other loan candidates that had not previously applied for a PPP loan because they thought—they couldn't find help with the paperwork or because they were turned away by a larger bank as too small.

To date, we have helped 38 businesses obtain first-draw loans during the second round. Just last week, we had an African American church applicant for a first-draw loan. Though they qualified for a $4,000 loan, they only requested $2,000 because they were concerned that if it were not fully forgiven, they did not want to be left with an outstanding loan. After additional education and coaching, they decided to take the full loan.

This program cannot fulfill its potential without a one-on-one advice from a lender who is committed to making it work. And, as you know, the PPP closes 3 weeks from today, on March 31, and while demand for the program has slowed significantly, there are still businesses and nonprofits that desperately need these funds.

At this moment, thousands of applications are in limbo because they were put on hold by an automated screening program. With the deadline approaching, we ask this Committee's help in urging the SBA to expedite the review of these holds.

Also, under current law, any application not approved by March 31, even if it was submitted prior to that date, cannot receive PPP funds. No applicant should be left stranded because of bureaucratic red tape. We believe an application submitted by March 31 should be eligible for approval and funding.

Lastly, if the Congress extends the deadline beyond March 31 or creates another round of PPP, the program should be targeted at those industries that have suffered the most in the pandemic: hospitality, travel, conventions, and others. These industries are major employers in many of the regions of the country and will continue to need assistance until the economy has fully reopened.

We have a set of recommendations for ensuring the funds are equitably distributed and retain the most value for job preservation, and I refer you to my written testimony for more detail.

Thank you again for convening today's meeting, your leadership, and the opportunity to offer my perspective. I am happy to answer any questions you may have.

Chairwoman VELÁZQUEZ. Thank you, Ms. Frazier.

Thank you to all the witnesses for the incredible, important information that you have shared with us.

I would like to address my first question to Ms. Kennedy. I was pleased to see the Biden administration announce policy changes allowing sole proprietors to secure considerably larger PPP loans. Given that 70 percent of businesses without employees are owned by women and people of color, can you discuss the impact the rule will have on them and their ability to recover from the pandemic?

Ms. KENNEDY. Thank you, Chairwoman Velázquez. And I can't overstate the significant impact to women and minorities for this program. The examples that I gave to you—an African-American-owned custodial maintenance company, and Leticia, a Latina-owned, women-owned business in the party planning space, they absolutely need those resources, and that Schedule C change was absolutely critical.

Our involvement with the Women Business Owners Association in our local area and statewide, our involvement with local Black and Latino chambers of commerce, they need and want this program for Schedule C borrowers, and that change will be the difference between them keeping their doors open or closing.

Chairwoman VELÁZQUEZ. Thank you.

Ms. KENNEDY. Thank you.

Chairwoman VELÁZQUEZ. Ms. Simpson, as a representative of the CPA community, you deal with your small business clients regularly, and I am sure they bank at different places. We have heard feedback that some larger lenders are not currently processing PPP loan forgiveness applications for loans made in 2020.

What consequences could a serious delay in PPP loan forgiveness have on small business?

Ms. SIMPSON. Thank you, Chairwoman Velázquez. PPP forgiveness is computated depending on the amount of the loan, and there has been conversations leading up to the legislation that was passed December 27 around whether or not the forgiveness process can be simplified for loans of $150,000 and less, which was approved.

We do expect that there will be an increase in the capacity of lenders to begin expecting the forgiveness applications again. They have put all their efforts recently into launching these—this new round of PPP, but we know that they are certainly—from the conversations we have had, they seem willing and anxious to turn to for their next processing.

We believe that this gives borrowers ample time to navigate other release options, such as the Employee Retention Credit, which can be an amazing source of much-needed funds, but there are complicated interplays between Employee Retention Credit and PPP, so taking the time to navigate that is vital.

Chairwoman VELÁZQUEZ. Thank you.

Ms. Bombin, I understand your initial PPP loan application was denied, and you had to find a lender who was willing to make a PPP loan to a four-employee micro business such as yours. Can you elaborate on that process now that you have received your PPP loan? How did your PPP experience change your views on banking big versus banking small?

Ms. BOMBIN. Thank you so much for this time, Chairwoman. I want to elaborate that it wasn't that it was denied; it was not available. We received notice from this national bank, and on their landing page, they simply redirected, as all of the—as the grand opening of the PPP had been—window had been opened on April 3, they had a statement on the website basically letting folks know that because there was significant interest, they were not able yet to process, and there has been a high volume of interest received, but they were not yet accepting.

So within that period of time, we—as we scoured and found Pioneer Bank, it became our lifeline for our business. We see this experience now as eye opening. I feel the value of ensuring that we put our business—small business' dollars and our worth to financial institutions that respect our investment, our time. And the power that we bring as one body is critical.

So after applying through this smaller bank, it became clear that the only way we could see change happen is by moving your funds and your worth and your revenue to facilities and banks that do value you.

As of this time, we have received funding. We have now moved our business accounts over to a smaller local bank. It is a very different experience, but every time I call, they know my name. It is refreshing.

Chairwoman VELÁZQUEZ. Thank you.

My time has expired, and now I recognize the Ranking Member, Mr. Luetkemeyer.

Mr. LUETKEMEYER. Thank you, Madam Chair.

Ms. Frazier, as we all know, the March 31 deadline is quickly approaching. In your testimony, you state that community banks have seen a demand, or at least your bank has seen demand cut in half for the second round of PPP here compared to the first round.

Can you provide a little more detail on what you think is the reason for that? Is it just not enough banks—or people qualifying, or do you think there is no demand for it, or in your particular area, your economy is coming back, or what would—can you elaborate on it just a little bit further?

Ms. Frazier? Unmute, please.

Ms. FRAZIER. Thank you very much.

I would say necessarily there would be less folks applying for the loans just within with the new rules of having to demonstrate 25 percent impact gross revenues over a quarter. And there are businesses that have recovered, but there are many small businesses that still desperately need this program.

And as I mentioned in my testimony, there are still small businesses that didn't apply the first time that are getting their first draw this time. So I would liken it that the program with 500 and less employees has diminished the numbers that qualify and that the program is far more targeted and focused on those that need it the most.

Mr. LUETKEMEYER. Well, in your testimony, you suggest that if we do another round, that it be more targeted. And I am kind of curious. What is the reason that the—that the applicants in your business did not apply for the first round? Were they not in business? They were, you know, struggling to do that, or they thought they could do without it and just didn't want to go through the hassle, or the bank didn't contact them, or what was the reason for, you know, not even being—not wanting to participate the first time?

Ms. FRAZIER. I will give you, if I may, a few examples to that.

First of all, just a week ago, I was speaking with a restaurant owner who had tried to apply in the first round with their bank, similar to Ms. Bombin. The bank itself was not helpful in getting that to her, and she was busy working in the business rather than having time to work on the business and make these applications. So she now has applied with us for a first-round draw. Given the timeframe of March 31 deadline, she will not be able to access the second draw, which her restaurant will clearly need to continue to survive.

But I also would state that I don't know that it—it is about not having access. I think it is about having information, and outreach is critically important, as I cited in the testimony, and as—like all banks—community banks have done, have really reached into the community to——

Mr. LUETKEMEYER. Thank you. Well, it is disappointing to hear that the banks are not doing their job, which is to try and help their customers access the program, because I think that is part of their job, is to be able to help their customer access this program, be able to help them through the problem and help their community. It is disappointing to hear that they are not doing it.

One more question for you before I move on to another witness here. With regards to the code problem, there is about 50,000 loans right now sitting in—at SBA that are—they are working through manually trying to get these things done, and by end of the month, anticipate somewhere around 10,000 are still not being able to be processed because of that code problem.

What is your solution to that? Or have you been talking to the SBA? What do they say? Where do you think we stand on that?

Ms. FRAZIER. That is definitely a difficult issue. We have, for example, one borrower that has been in the code issue since January 29 that we have been trying to resolve, and we—you are forced to use the systems to do that. However, not always can you resolve an issue through a system, and you need to speak with somebody that is—has expertise and ability to point you in the right direction so that the borrower can benefit from this program.

And so if we can have an experienced help desk with a live person that can answer the phone and be able to support us, I think we would be able to find error resolutions moving along much faster.

Thank you.

Mr. LUETKEMEYER. I appreciate that.

Ms. Simpson, you mentioned in your testimony that you think there is as many as 2,000—or, excuse me—2 million loans that are sitting out there waiting to get money that probably will not apply. Where do you get that figure from, and what do you think is the holdup on that?

Ms. SIMPSON. Let me clarify that comment. The 2 million represents the number of self-employed business owners who, based on the data that we have available, may have already applied for either—for a first-draw loan at the reduced loan amount. So they can't take advantage of the increase based on the new guidance.

Mr. LUETKEMEYER. Okay. All right. Thank you very much.

My time has expired. Madam Chair, I yield back.

Chairwoman VELÁZQUEZ. The gentleman's time has expired.

Now we recognize the Chairman oF the Subcommittee on Underserved, Agricultural, and Rural Business, Mr. Golden from Maine.

Mr. GOLDEN. Thank you, Madam Chair.

I think I am going to try and follow up a little bit further with that final question from the Ranking Member, and I will direct it at Ms. Simpson.

So we already know that you mentioned this issue in your testimony, where you found that a lot of your members probably could have gotten a much higher PPP maximum, maybe around 50 percent higher, if they are able to retroactively adjust the max amount to account for SBA's recent guidance for 1040 Schedule C filers.

Do you or your association have any kind of estimates about what share of Schedule C filers could benefit from a retroactive application?

Ms. SIMPSON. I don't. I am sorry. We can certainly take that back to the team and try to find that information.

There is a cap on the loan amounts for Schedule C borrowers just like all owners of 20,833, so that does limit the cap of the loan, but we can certainly take that back and look into it.

Mr. GOLDEN. Yeah. That would be very helpful. You know, and if anyone else on the panel has—thinks they have any idea of what the scale is like out there, that could obviously have an impact on future discussions about additional appropriations for the program if people were allowed to apply retroactively for a higher loan amount. So I think that would be very helpful information for this Committee and for Congress.

I guess I would also ask, Ms. Simpson, have you heard any examples from clients that your association represents who are in the situation with the Shuttered Venue Operators Grant program where we have a venue that is publicly owned but privately operated who are questioning whether or not they are going to be eligible for that program?

Ms. SIMPSON. There is certainly certain uncertainty around the requirements for the—what we essentially call the SVOG, and so they are anxiously waiting for that program to open up before the process to begin to apply.

Mr. GOLDEN. So you don't have any early information about what eligibility is going to look like for those types of entities then?

Ms. SIMPSON. That is correct. I do not.

Mr. GOLDEN. All right. That is helpful.

I think basically everyone on the panel, or at least pretty close to, has talked about some of the issues with 2021 applicants facing delays related to error flags in the SBA system. And some of you have suggested that perhaps we should ensure that people are eligible beyond March 31 if they, you know, miss that deadline through no fault of their own, essentially if the flag is dropped and is resolved in their favor, but then they find that they are not eligible. So I think everyone is in agreement about that.

But I am also hearing from a lot of constituents who are looking at the Shuttered Venue Operators Grant, but they are worried that they are going to find out late in the game that they are not eligible, and then it will be too late to apply for a second-draw PPP or even a first-draw PPP.

So would you—any of you recommend maybe some kind of like safe harbor to address a situation like that where people are waiting for the shuttered venue program but could be excluded, you know, late in the game, and then miss the ability to apply for the PPP?

Ms. SIMPSON. I believe that there is a current proposal to allow PPP almost as a bridge while waiting for the requirements around the SVOG to be fully fleshed out, and then that PPP loan could be reduced from the amount of any SVOG grant.

Mr. GOLDEN. And you are aware that that is——

Ms. SIMPSON. The challenge there——

Mr. GOLDEN. That is just a proposal, correct?

Ms. SIMPSON. That is correct. It is just a proposal, as far as I understand. But the challenge there is the impending March 31 deadline on loan application. And I think SVOG-eligible entities are just nervous about which way to go.

Mr. GOLDEN. Thank you.

If anyone else wants any other feedback, you have got about 30 seconds left of my time, and I would be happy to let you have it.

Ms. FRAZIER. I would just like to add that I would consider that also in the targeted industries, that if you were to extend the deadline, that this too would be one of those industries that should be eligible for that.

Mr. GOLDEN. Very good.

Madam Chair, I yield back.

Chairwoman VELÁZQUEZ. The gentleman yields back.

Now we recognize the gentleman from Texas, Mr. Williams, Vice Ranking Member of the Committee, for 5 minutes.

Mr. WILLIAMS. Thank you, Madam Chairwoman.

PPP was designed to help small businesses during COVID-19 and keep employees on payroll. The program was only designed to be 8 weeks long to sustain businesses during short-term lockdowns.

My colleagues on the other side are focused on expanding the program for political gains with union members and Planned Parenthood overprioritizing hard-working businesses that use this program as a lifeline. It is irresponsible for Congress to continue expanding PPP unless it targets specific industries that have been hit hardest by the COVID restrictions. We don't want PPP to become part of an economy. At the end of the day, we need to cut taxes.

So my question to you, Ms. Frazier: What metrics should we be looking at as we disperse what is left in PPP, and how do we determine what industries should be targeted?

Ms. FRAZIER. Thank you. I believe the metrics that you began with in this what is called second round, where you looked at the number of employees and an actual impact to revenues to the businesses, actually targeted—began to target, as you noticed in the number of applications this time, so I would continue along that path.

As you decide how much more to support, maybe—I can tell you from looking at the restaurants, what we have seen is anywhere from 40 to 70 percent of revenues are reduced, depending upon their business model as an example overall. But I do believe the number of employees, the revenue impact of the organizations, and the changes to the Schedule C, I believe, that were late in the game are critically important, as well allowing that route, folks that may have already applied, to return and see an increase would be very helpful for them.

Mr. WILLIAMS. All right. Thank you.

Many banks have announced that they will no longer accept applications, as we talked about this morning, 2 weeks prior to the March 31 deadline, when Paycheck Protection Program is expected to close. Many of these deadline concerns come from the Small Business Administration delaying applications because of automated holds due to fraud and abuse. A suggested solution has been to put a time stamp on applications to ensure who apply up until March 31 are guaranteed to be processed.

So also to you, Ms. Frazier: Can you elaborate on the PPP information gap between the Small Business Administration and lenders and how your community bank plans to handle the March 31 deadline?

Ms. FRAZIER. Certainly. Thank you. We are asked internally what we said was a March 29 deadline, not—mainly because what I would speak to is it takes time for any bank, and us included, to process the application, ensure we have all the documentations, ensure the calculation is correct before we can submit to the SBA. And then once submitted to the SBA, it can be 24 to 48 hours, assuming there are zero error messages.

And what we have said to our borrowers or potential applicants is that get it in before that date because we can't guarantee it will be completely approved by the March 31 timeframe.

Mr. WILLIAMS. Okay. Ms. Simpson, you mentioned complexity and confusion of tax deadlines stemming from Paycheck Protection Program and COVID-19. PPP was intended to be a lifeline for small businesses, not an avenue to force burdensome tax liabilities and operational challenges on Main Street America.

So, Ms. Simpson, can you talk about some of the most widely asked CPAs—questions CPAs have gotten related to PPP loans and what guidance would be most helpful to get these issues resolved before tax day?

Ms. SIMPSON. Well, it gets complex and gets into some of the nuances of Tax Code. Before we get tax returns filed, borrowers are looking for guidance as to how these are actually going to show up on the tax returns.

So some IRS guidance is needed. And, additionally, some guidance around, again, how to report ERC as an additional credit opportunity that has been made available to PPP borrowers who couldn't take it in 2020 but are now eligible. There are some complex requirements around when that gets put back on the tax return.

Mr. WILLIAMS. Okay. I thank all of you for participating today, and I yield my time back.

Chairwoman VELÁZQUEZ. The gentleman yields back.

Now we recognize the gentlelady from Kansas, Ms. Davids, for 5 minutes, Chairwoman of the Subcommittee on Economic Growth, Tax, and Capital Access.

Ms. DAVIDS. Thank you, Chairwoman Velázquez and Ranking Member Luetkemeyer, for holding this important hearing today.

I am really glad that we are talking about the next steps for the Paycheck Protection Program. It has obviously been a very, very important program. And with the vaccine rollout speeding up, there is real hope for economic recovery and into the public health emergency that we are in the middle of.

And, you know, I think that it is clear we have heard today and we have heard over the last couple of months that small businesses are still struggling to keep their doors open and trying to just figure out how to move forward. And I am really glad that so many of us on this Committee are committed to providing the support that our small businesses need. Clearly, small businesses are the backbone of our economy.

And I know that the Paycheck Protection Program has, at least from a number of people in the Kansas Third, has really saved a lot of livelihoods and enterprises from some pretty extreme economic difficulties. And I also know we heard about the roadblocks, the hiccups, the difficulties that folks have faced.

And I am kind of interested to start off with whether or not, Ms. Kennedy and Ms. Simpson, if you could, kind of talk a little bit about the second-draw restrictions, whether it is too restrictive for the folks that you all are seeing, and then also as a follow-up—and this can be for anybody—the major challenges that we are seeing that are slowing down the loan applications.

Maybe, Ms. Frazier, if you could answer that second question after Ms. Kennedy and Ms. Simpson.

Ms. KENNEDY. Thank you so much. On the second-draw restrictions, I think that the guidelines were very reasonable and, certainly, this second rollout of PPP really made a difference in helping the communities that needed the most service.

The change with the Schedule C has been really significant, and I can't emphasize enough time is not on our side. And so the time to help these businesses that are Schedule C, to get the funds to underserved communities, that, quite frankly, are the greatest impacted in the pandemic if you look at the numbers for economically disadvantaged communities and rural communities, to be able to get access to these resources, and the Schedule C change will make a significant difference.

And I will say to you in response to your last question, the errors in the holds have been a real challenge. There was kind of a magic wand after the February 24 changes were made that helped to remove some of the errors. But the resources, the competent staff to help people address those errors is really what is slowing down the process. And with this looming deadline, it could absolutely cripple the program and small businesses from getting the help that they need if we don't get that addressed.

Ms. SIMPSON. If I may, I will address the second question and then go back to the third.

Regarding the conversations around providing an opportunity for SBA to approve applications that are in the pipeline on March 31, that is great, but there are still so many applications that can't even get through the front door to get into the SBA system.

In our written testimony, we provided some graphics because it is really complicated, and so a visual aid has been included in the materials to help explain that front door that is entrapping so many applicants. So if that could be taken into consideration when thinking about that March 31 deadline, that would be very helpful.

As to the first question around the 25 percent revenue decline for second-draw loans, we are working with CPAs. We are trying to help their clients understand whether or not they qualify at that 25 percent level. The SBA and Treasury have been very open and flexible in how borrowers can calculate that. However, we still need a key piece of guidance as to whether some of the other business relief funds that came out of the CARES Act, such as Provider Relief Funds and HHS funds, are included in gross receipts.

Ms. DAVIDS. Thank you. And then I will have to follow up. I would like to follow up, Ms. Frazier and Ms. Bombin, about a couple of other things. So thank you all for your time.

I yield back.

Chairwoman VELÁZQUEZ. The gentlelady yields back.

The gentleman from Minnesota, Mr. Hagedorn, is recognized for 5 minutes.

Mr. HAGEDORN. Thank you, Madam Chair. I appreciate you and the ranking Republican member for holding this hearing. It is very beneficial.

As we know, the Paycheck Protection Program was designed to help businesses and others get from one side of the coronavirus to the other and keep people employed and paid. And it has been very successful in many ways. Many members of this Committee and my Agriculture Committee where I serve worked early on to see that farmers and ranchers would also be included in the Paycheck Protection Program.

Unfortunately, there has been a little bit of an oversight, I believe, in the last legislation where farmers and ranchers are only allowed to use net income instead of gross income for calculations to apply for PPP loans. And I offered an amendment in the reconciliation process with this Committee. It wasn't accepted, but I know there was a lot of folks on the other side of the aisle who felt like it was an amendment that we should take another look at.

So I have introduced legislation, the PPP Flexibility for Farmers and Ranchers Act. It is H.R. 1411. Has about 70 cosponsors already, and that would fix this loophole and allow our farmers and ranchers to use gross income for their calculations.

And, Ms. Frazier, I noticed in your testimony that you discuss this concept. Can you explain to folks why this is so important for our farmers and how it will help our communities?

Ms. FRAZIER. Thank you. Well, as we know, the farmers really are the ones that feed us every day, provide the food for our tables and for our lunches, et cetera. And they work very hard on their businesses, and oftentimes their net bottom line is very small in comparison to what they provide at the gross revenue level.

So similar to the Schedule C, this change to the schedule act was critically important and has actually given the farmers quite a bit of hope. And we saw quite a number of farmers coming back, looking for additional funds, and excited to see that benefit. So I thank you for those changes and really support your initiatives to continue that.

Mr. HAGEDORN. I appreciate it. Thank you.

And as somebody who represents southern Minnesota, a lot of agricultural interest, I can tell you that, you know, when farm families sell out, they usually sell out to bigger operators, and bigger operators are not bad folks but it means that we are going to have fewer people holding the land, working the land, living in our rural communities, shopping on Main Street, going to our schools. It puts enormous pressure on our rural communities to be sustained. And, of course, it undermines what we do in agriculture, which is incredible, providing food and quality food at affordable prices for the American people and many around the world.

So I am hopeful that we can gain support for this piece of legislation, and if the program is extended in any way, make sure that that is included because it would help over 100,000, I believe, farmers and ranchers across the country. And so I would ask for your support on that.

Lastly, I think, it seems to me, based on what I have seen in the State of Minnesota, best thing we can do to help everybody across the board is to get rid of these lockdowns. Our State of Minnesota has been locked down as much as almost any other State. It has really hurt businesses, farmers. It has hurt people across the board, and we are seeing a real labor shortage out there. And, unfortunately, with the schools closed for the most part for a long, long period of time and not fully reopened, you know, parents aren't able to get back into the workforce full time. And we are seeing an enormous pressure put on for childcare services.

So I would encourage, you know, if he is watching, our governor, to open back up, get the kids back in schools, because it is also having a bad impact, not just on businesses and so forth, but addiction issues, suicide, people having problems with depression, folks like me. I am a stage IV cancer survivor. And, unfortunately, there are people that didn't go to the doctor and get their screenings, who are probably going to have worse problems than they otherwise would if they had had that in time. And then you see students in record numbers in Minnesota falling behind, dropping out.

These are the types of unintended consequences of lockdowns that really should be examined. I think we need to make strong changes in that area.

So if there is anyone that would like to comment on the—well, I only have 35 seconds. I apologize.

But, with that, Madam Chair, I will yield back.

Chairwoman VELÁZQUEZ. The gentleman yields back.

The gentleman from Maryland, Mr. Mfume, Vice Chair of the Committee and Chairman of the Subcommittee on Contracting and Infrastructure, is recognized for 5 minutes.

Mr. MFUME. Madam Chair, thank you. My thanks to both you and the Ranking Member for pulling us together for this hearing and for the leadership that you have demonstrated on this issue going back over and over again.

A couple of quick things. First of all, I appreciate the previous gentleman's remarks, particularly about the human aspect of what is going on, in addition to the very real needs of businesses out here in the country.

For the record, Madam Chair, I was glad that you put in your memorandum to us a reminder that we have appropriated $800 billion in total for PPP. So Congress gets a big "E" for effort but a much smaller one for effectiveness and efficiency, which is why this meeting is so very important, trying to drive us to where we ought to be with good testimony.

I have a question for Ms. Frazier and then one for Ms. Kennedy.

Ms. Frazier, you talked about extending the deadline beyond March 31, which I am in support of. And then you said we should refer to your written testimony for some of the ideas and thoughts that you had along those lines. So I went to your written testimony and was wondering if you could expand, Ms. Frazier, on a couple of things: first-draw increase eligibility, second-draw eligibility, second draw use of proceeds, and the requirement that goes with that, as well as the Schedule C borrowers and Schedule C filers, the implications of that coming out of the SBA change.

Ms. FRAZIER. Thank you. I will try to remember all the great questions that you have.

So I will begin with first-draw borrowers. Right now, if someone were to apply for a first draw, they would not be eligible for a second draw, nor would they be eligible to spend the money in the 8-week period of time before the March 31 date. So maybe they didn't have an opportunity to do a first draw for, you know, whether the bank didn't support them or they didn't get the application in, wasn't aware. We really firmly believe that they should have an opportunity for that second draw to support their business. So expanding that time and giving them the time to spend the money as the rules predict.

But also, being able to go for an increase. Sometimes—for instance, in my testimony, I remarked about a Schedule C borrower who is a video production firm and sole proprietor who outsources the help when he needs it. When he applied for his first draw, he only was able to access $4,000. He needed much more money, and the round one could do that because his business was shut down. So we supported it with an SBA loan, express loan of $16,000.

If the rules that are now in place for Schedule C had been in place at the beginning for him, he would have been eligible for that full $20,800. And it would now also be forgiven as well. So he is left today with a $16,000 SBA loan that we have turned out over a period of time.

He did come back for a second draw, again, early in the process, because his business was still impacted, but the rules charged. And so our suggestion is, is that businesses like that are able to come back and reapply using that new calculation. It is very important.

Mr. MFUME. And, Ms. Frazier, I am going to have to reclaim my time because it is dwindling. I would appreciate, though, if you could get back to me with expanded thoughts on those areas that you listed in your testimony that I just referenced.

And, Ms. Kennedy, if you could just take a moment to talk about section 1112 of the CARES Act which provided 6 months of debt relief for existing 7(a) and 504 and microloan borrowers. The 6-month period was extended under the Economic Aid Act, which was passed in December.

Could you expand on the importance of section 1112 in terms of current SBA borrowers, especially those with unforgiven loans?

Ms. KENNEDY. Thank you so much, Congressman. The section 1112 payments were really a lifeline for these small business borrowers. With the new economic relief aid act, the predicted amount of funds were underfunded. We discovered that they were underfunded, and some of those small businesses are not going to get the SBA debt relief payments that they need most. These are community advantage and microloan borrowers as well as SBA 504 and 7(a) borrowers. And the predicted amount that was supposed to be 6 months or 3 months has shrunk down to 3 months or 2 months of debt relief payment.

And so we are asking Congress—we know your intention—to consider how we can close that gap and make sure those small business borrowers who plan, thinking about inventory, and adding additional employees, and supporting their operations because of the debt relief payments, to be able to get those resources so that they can continue to support their communities.

Mr. MFUME. Thank you very much.

My time has expired. Thank you, Madam Chair.

Chairwoman VELÁZQUEZ. The gentleman from Minnesota, Mr. Stauber, is recognized for 5 minutes.

Mr. STAUBER. Thank you. Thank you, Madam Chair. And I appreciate the witnesses' testimony. Greatly appreciate it.

I just have a few quick questions for Ms. Frazier. Can you elaborate on what the unresolved errors look like in the SBA application as you mentioned in your testimony?

Ms. FRAZIER. The item that I am referring to is actually a fraud situation. This is a first-time draw applicant for their business. When the application was submitted to the SBA, it was determined that the business employer identification number had previously been used in the first round as a—for an EIDL loan and a first-round draw. And so we have been trying to work diligently through this process to find a way to get that released off of her so that she could have her first-draw loan.

Mr. STAUBER. And next question, Ms. Frazier. What changes need to be made to ensure that PPP isn't just a bridge to nowhere and that business owners are able to take full advantage of what the program has to offer?

Ms. FRAZIER. I think beyond the PPP, what was heard earlier in other oral testimonies, I think continued support from the SBDC, through the SBA, and also the SBIR programs to help those businesses with their business plans, to help them look forward and find a way, whether they need to change their business model, adapt their business model, or just understand what I would refer to as working on the business rather than in the business. So I think funding those programs across the minority groups, across all groups would be very helpful.

Mr. STAUBER. And then, in your opinion, are the traditional SBA lending programs prepared to pick up where the PPP leaves off?

Ms. FRAZIER. I believe so. And I also believe that, through this process, many banks have become much more comfortable with the SBA programs and will continue to make use of them going forward, yes.

Mr. STAUBER. The last comment I would like to make is, as you supported the PPP program in the lending institutions, some of the redundancy for expediency was, you know, left off the, you know, the normal way in which you provide a loan. Would you agree or not that some of the items of redundancy as we get through COVID, we can erase some of the redundancy that you were asked to do by the Federal Government as a lending institution? And if so, name just a few of those.

Ms. FRAZIER. May I ask for a clarification on redundancy?

Mr. STAUBER. So the PPP loans were given out in an expedited manner, and some of the redundant—and I would say some of the normal things you would do like, for instance, the known customers in your respective banks, you—many people—or many banks, rather, expedited the loans and not required to do all the, quote, normal, end quote, you know, checks and paperwork.

Are you prepared in any way to state that the way you did the prior loans should be the same way going forward? And what I am getting at is reducing redundancy, which is a third of your time preparing for that examiner to come into your business.

Ms. FRAZIER. I appreciate that. Thank you. I can speak for my bank and a few others, more than a few others, that I have talked to directly. But while the requirements of the PPP program did not necessarily require us to submit what we normally would for a full loan package, we did do a good bit of the work behind it just to ensure. And the goal behind that was just to ensure that the borrowers received 100 percent forgiveness. And that is what is most important at the end of the day, that they didn't have a tail of a loan hanging around for them.

So going forward, I am not sure that I can answer off the top of my head. I would like to give that question a little bit more thought and get back to you, if that is okay.

Mr. STAUBER. That would be just fine. Thank you for your testimony.

Madam Chair, I yield back.

Chairwoman VELÁZQUEZ. The gentleman yields back.

The gentleman from Minnesota, Mr. Phillips, the Chairman of the Subcommittee on Oversight, Investigations, and Regulations, is recognized for 5 minutes.

Mr. PHILLIPS. Thank you, Madam Chair, and to our witnesses today.

I am going to follow up on my friend and colleague, Mr. Mfume's, questioning about the 1112 program.

To Ms. Kennedy, you called the relief provided under section 1112 under the CARES Act, quote, a lifeline to your borrowers. That is absolutely true certainly for the small business owners in my district and I presume in all of our districts. That is why I am concerned about the gap in funding to fulfill the December promise, the so-called December promise that was made to businesses in the Economic Aid Act of last year.

In fact, a smoothie bar in my district called DrinkFit was approved for a 7(a) loan exactly 1 month after eligibility for the first round of debt relief, after that ended, despite starting the process a full year earlier. Then the second round of additional months of relief under the Economic Aid Act added eligibility on both sides of his approval date, leaving his business in a literally no-man's land due to how that bill was written.

So, Ms. Kennedy, can you speak to the challenges that the businesses that you serve have had with the section 1112 program running out and what steps you would like to see we in Congress take to make good on the promise that we made to the employers?

Ms. KENNEDY. Thank you so much, Congressman. And I think your last statement of make good on the promises. We as your nonprofit community partners, we reached out to those businesses and we let them know what was in the Economic Relief Aid Act, and to go back to them and let them know, I am sorry, there is not enough funds, that was really tough. And one of our small businesses who is a catering company who has absolutely been slammed because he cannot open his business, he cannot run his business, he called and emphasized, If there is anything that can be done to make sure that we can get those payments, we would really, really appreciate it. We are trying to pivot. We are trying to get our business back open, and we need this assistance, and we thought we had it. So we were planning, based on having those funds available or that debt relief available, and now we need to figure out how we are going to make this payment.

The need is great for those businesses, especially in hardest hit industries. And we hope that Congress can figure out how we can keep the promise that Congress made and intended for these businesses through the section 1112 payments.

Mr. PHILLIPS. Thank you. You consider your message delivered. We have open ears, and I wholeheartedly agree.

Ms. Simpson and Ms. Frazier, in your comments, you mention the changes made by the Biden Administration to the loan amount calculation for business owners relying on PPP including sole proprietors, independent contractors, and the self-employed. And as you mentioned, I am hearing from constituents myself who say that the formula change has to be applied retroactively or hundreds of thousands of business owners will be unable to access the potential of an increased loan.

So a few questions. To what extent is money being left on the table? How much more support would companies be able to tap into if this issue were to be addressed? And is your recommendation that Congress take steps to correct the issue, or can that be done at the administrative level?

Perhaps, Ms. Simpson, you might begin.

Ms. SIMPSON. Thank you. We don't know exactly how much money will be left on the table. But we do know, based on some conversations we have had with CPAs, who have looked at their client base of Schedule C filers, that the loan amount could be as much as 50 percent more or doubled. So many small business owners operate on a shoestring, and their net income, the bottom line of their tax filing could show a loss or barely any income at all. But if they are able to use this gross receipts calculation that is now available to new Schedule C borrowers, they would be able to access a substantial amount more, again, up to the cap that the SBA has approved.

Mr. PHILLIPS. And just relative to the question about Congress or at the administrative level to address it, do you have thoughts on that subject?

Ms. SIMPSON. I am no constitutional expert, but it is my understanding that SBA believes that that would require congressional action.

Mr. PHILLIPS. And Ms. Frazier?

Ms. FRAZIER. Thank you. What I would like to do is look back through our applications and give you a more firm number and get back to you. But I do know that we have seen an increase in the number of applications over the past week since that calculation changed. And I echo what Ms. Simpson said that I believe it could be as much as 50 percent, 60 percent increase in loans for a good number of those businesses overall.

So, again, I think that to have that—the feedback that we have received thus far is that maybe the systems are not adequately prepared to accommodate that increase and so maybe there needs to be consideration to, I don't want to call it a third draw, but a draw increase type format.

Mr. PHILLIPS. All right. Thanks, Ms. Frazier.

And I yield back.

Chairwoman VELÁZQUEZ. The gentleman yields back.

Now we recognize the gentleman from Pennsylvania, Mr. Meuser, for 5 minutes.

Mr. MEUSER. Thank you, Madam Chairwoman. Thank you very much to all of our witnesses.

In the second round of PPP, one of the requirements was a 25 percent reduction in revenue in a quarter, a quarter of 2019 versus a quarter in 2020. I offered an amendment which would allow to compare any 90-day period in 2019 versus 2020, as opposed to a set calendar quarter.

Ms. Frazier, from a community banker's standpoint, would this have been helpful to banks and in the interest of small businesses if we could pass such a provision?

Ms. FRAZIER. Thank you. I think any time period that a borrower could review and look at their business, it could be helpful certainly for allowing more people access rather than just the traditional calendar quarter.

Mr. MEUSER. But as far as you know, that wasn't a significant problem for many?

Ms. FRAZIER. It would be difficult for me to answer that fully, but we did not hear any commentary that it was a problem.

Mr. MEUSER. Okay. From a community bank standpoint, once again, do you feel our community banks can handle the pipeline of loan requests that exist? My understanding is it is as high as 50,000 nationwide that need to be facilitated between now and March 31. Do community banks feel that is a problem?

Ms. FRAZIER. To my knowledge of all that I have talked to, we do not feel that this is a problem. We really take pride in serving the communities in this way.

Mr. MEUSER. Okay, great. Were there they sectors that you believe, industry sectors such as restaurants, for instance, that were underserved or PPP was not well-enough designed to serve effectively?

Ms. FRAZIER. I cannot speak to that directly. I am not aware of any that were not addressed or were not eligible. I do believe—I will go back to the changes to the Schedule C where moving to that gross receipts method, there were many businesses that were operating at a net loss that were ineligible in matters particularly about an industry but at that net loss, and that changed the picture for those folks.

Mr. MEUSER. I thank you. And, Ms. Frazier, again, do community banks have any concerns or many concerns with the forgiveness procedures that are currently outlined for the loans?

Ms. FRAZIER. No. It seems to be working smoothly for us, and the process continues to improve. And with the most recent application, simplified application for loans, $150,000 or less, it is working smoothly.

Mr. MEUSER. That is great.

Will a loan that is outstanding that has not yet been forgiven be used by the bank, for lack of a better way of putting it, against the business' line of credit?

Ms. FRAZIER. No. I will speak only for my bank, is that the process we used in helping the buyer access the PPP loans we felt assured that they would have forgiveness. And so we continued to, even though borrowers that have PPP loans, offer them additional loans and support their business needs.

Mr. MEUSER. Okay. Well, those are very positive answers. That is good to hear.

Are there any aspects of the PPP program that you feel are too burdensome to lenders or to your customers that you feel we should work on?

Ms. FRAZIER. I would go back to the errors and being able to provide resources such that the process, if there is an error identified or something is holding up the system, that we have access to folks that can help us resolve it, because you have the benefit of actually approving the loans or approving the dollars. We have the very wonderful benefit of being able to say the loan is approved and then forgiven. And so that is our ultimate goal is to get to those answers for the borrowers as quick as possible.

Mr. MEUSER. Last question. Do you think some of those resources need to be dedicated to the SBA?

Ms. FRAZIER. It will help with the errors, yes.

Mr. MEUSER. Thank you. I yield back.

Chairwoman VELÁZQUEZ. The gentleman yields back.

The gentlelady from Illinois, Ms. Newman, is recognized for 5 minutes.

Ms. NEWMAN. Well, good morning, everyone. And thank you, Madam Chair and Ranking Member. I appreciate the time this morning. And thank to you all our guests today. Very informative and very helpful.

So this morning, I am directing my questions to Ms. Kennedy and Ms. Simpson. The former gentleman was talking about loan forgiveness, and I was going to tag off that.

So in my district, loan forgiveness has been a significant problem. We have about 80 percent of our businesses in Illinois Three are micro businesses, so under 20 employees and very small revenue. So with that, they are busy running their business, and getting their loans forgiven has been quite an ordeal.

So I would love to ask Ms. Kennedy and Ms. Simpson, from both of their perspectives, what can be done either by the SBA or by Congress to make that easier for these loans to be forgiven?

And I will start with Ms. Kennedy.

Ms. KENNEDY. Thank you so much. You know, we are CFI, a community financial institution, as a CDC and micro lender and CDFI. And the forgiveness process we have found to be fairly straightforward, as Ms. Frazier said, especially for loans under $150,000. She also mentioned people—the small businesses are working in their business versus on their business. So sometimes that takes a little time to get the documentation, but the fact that the applications have been streamlined has really made a critical difference in helping the small businesses get that forgiveness. So we have had fairly good experience with that and responsiveness from SBA when there has been questions.

Ms. NEWMAN. Thank you.

And, Ms. Simpson, as a CPA, what guidance can you give businesses to get the—because it is an onerous document. I read through the 20-page document. It is fairly onerous for people to get through. And luckily, we have a lot of kind CPAs and now we have the community navigation program that will be helpful in that regard. But what do you recommend to those folks who are struggling through that without spending more money?

Ms. SIMPSON. Thank you for the question. We have actually worked with a technology provider to create an online platform that helps small business borrowers work through the forgiveness process using an online platform. So it avoids—again, I love Excel. I think it is awesome. Not everyone agrees with me.

So this tool allows small business owners to use a more friendly environment to let them input information around their payroll costs, their rent, their utilities, and the new expanded costs that are now eligible.

It is really important for small business owners to know that there are safe harbors within the forgiveness process. If they were shut down, which so many of them were, they can avoid some of the implications of a potential head count reduction.

So understanding that there are opportunities to streamline this forgiveness process and that there are online tools to help I think would be a good place to start, and I have got a lot of resources that I can connect you with to get that information out there.

Ms. NEWMAN. That would be much appreciated. It is a significant problem in my district, so I would really appreciate that. Thank you.

And let me just end by thanking the Committee for all their great work on the SB program overall. It has helped my district immensely, and I really appreciate it. I also would add that I very much appreciate the fairness of the program, that it addressed many industries. And I think that many industries is important and that we emphasize those that were hurt the hardest, such as stages and venues and restaurants. So I am very happy with the broad breadth of the program. So thank you all.

I yield back.

Chairwoman VELÁZQUEZ. The gentlelady yields back.

The gentlelady from New York, Ms. Tenney, is recognized for 5 minutes.

Ms. TENNEY. Thank you, Madam Chair.

And good morning to everyone. It is such an honor to work with you again on this Committee.

I want to thank the witnesses for their insight. This has been really, really a productive and helpful meeting.

It has been a long, hard year, and our Nation is finally turning the corner to fight this COVID-19 crisis. Small businesses are the heart of the economy in New York's 22nd District and have been hit extraordinarily hard during the pandemic. In fact, 94 percent of the workers in the 22nd District are employed by a small business, so they are really one of the bright spots in our community, and the Paycheck Protection Program has been a phenomenal lifesaver for us. It has allowed many businesses in my district to continue to pay their employees and to survive the shutdowns that we have experienced in New York, especially upstate.

In New York, just for some information, PPP has provided 140,000 loans, totaling $12 billion, and has saved literally hundreds of thousands of jobs. This has been an effective COVID-19 relief program. And we are, as we know, to begin to hopefully head into prepandemic life and to a better way forward, opening our economy is obviously critical to this. But there are many businesses that still need to benefit from PPP.

And just some good things that have happened: 397 jobs were added to the economy in February, well beyond the 166,000 expected. The unemployment rate dropped to 6.2 percent, which is a huge decrease from the peak that was 15 percent that we experienced early in the pandemic. The nonpartisan Congressional Budget Office has estimated that unemployment will continue to fall as vaccines are more widely distributed.

I am also concerned about where we are going to go, not just with PPP, but to make sure that our small businesses continue to benefit from the Tax Cuts and Jobs Act as they move forward into prepandemic life. I have heard from numerous businesses that are concerned about that, as well as maintaining and trying to deal with their new taxes, should that happen during this crisis.

The Paycheck Protection Program will expire, as everyone has talked about here today, on March 31. And the program has nearly $128 billion of funding still available. While I do not support all of the provisions of the American Rescue Plan, I continue to believe that parts of that bill have merit, particularly provisions that would continue to extend relief to small businesses and individuals most in need. And i recognize that, obviously, while we are entering into recovery, there are many businesses who have done better than others and some who have not. Some have done well. Some have, unfortunately, been forced to close. But I am also a small business owner and I understand the difficulties we face, and I am committed to doing everything we can to make sure that everyone can return to normal life and all businesses can thrive.

So one of my big questions is: As we head into this complex tax situation—and, hopefully, the Tax Cuts and Jobs Act will remain in place, because it has been cited as the single biggest benefit to my small business community in the last 30 years—I wanted to ask and turn my attention to Ms. Simpson and just to get her expertise as a CPA. Obviously, many businesses are struggling with the complexity and confusion around PPP that you have discussed. But how is it going to specifically impact their taxes? Is there a way that maybe we can put the online program you suggested for forgiveness? Can we place that? Also, can we do something with dealing with the paperwork for taxes as they are coming due right now?

Ms. SIMPSON. As a colleague said, the Tax Code may never be less complex or may never be easy, but we can certainly strive to make it less complex. And I believe that you find many people who are willing to go along with that statement.

We are working with the IRS to get guidance on how the PPP programs will impact the tax returns of many borrowers. We thought the problem was solved when Congress allowed PPP expense deductibility. However, there are complicating factors, such as States that may not conform to that or they may conform in different income caps. So lots of moving parts and pieces to navigate across the entire country and how systems are operating there.

We would be interested in talking about a resource that we have provided that helps CPAs and small business owners navigate the differences between Federal tax treatment and State tax treatment. That is a document that we do have available.

Ms. TENNEY. Thank you. My time is expired. But would that be something that would be on an online portal?

Ms. SIMPSON. I can go back and talk to the team about that.

Ms. TENNEY. Great. Thank you so much.

Thank you, Madam Chair. I yield back.

Chairwoman VELÁZQUEZ. The gentlelady from California, Ms. Chu, is recognized for 5 minutes.

Ms. CHU. Thank you so much, Madam Chair.

First of all, thank you to Hilda Kennedy for being here. Hilda Kennedy is my constituent, and she was one of the first persons to contact my office about the need for a Paycheck Protection Program set-aside for SBA micro lenders, certified development corporations, and CDFIs.

And so thank you, Ms. Kennedy, for being here to provide the perspective of a small community financial institution and especially for the work you have done in my district to connect underserved businesses to COVID relief. It was thanks to the direct advocacy of constituents like you that made it so clear to me that PPP needed a dedicated set-aside for underserved businesses. And with the Chairwoman's support, we succeeded in creating those set-asides for small banks and community financial institutions like your business, AmPac. Those CFIs have processed over 110,000 loans directly, but also provide crucial guidance and resources to small businesses.

Can you talk about the kind of services that CDCs have provided to small businesses and how they differ from what larger commercial banks can offer?

Ms. KENNEDY. Thank you so much, Congresswoman, and great to see you.

The difference between a CDC and a bank is we are mission-based lenders. So our bottom line is the small businesses that we serve, and we are not beholden to shareholders. We also provide a lot of hand-holding for small businesses. So from technical assistance support to webinars and training, to just being available when the business plops in your office and just needs to be reassured and needs to know how do I complete this form, that is the role that we play.

And we have been working with a number of communities to manage emergency relief programs, COVID-19, from counties to State to other local governments. So we are in the community and part of the mission of serving small businesses.

Ms. CHU. Well, thank you for that. And also, thank you for mentioning the importance of a Community Advantage loan program in delivering capital to underserved businesses over the long term.

My legislation to give statutory authorization to this program would increase the targeting of underserved markets and explicitly include business owners of color in the program. And it passed the House last December. It is a top priority of mine to pass the bill into law this Congress.

And what is important is the success of the PPP set-aside for CFIs show that the Community Advantage model works at scale and is particularly powerful for reaching underserved and underbanked communities. Can you describe your interest in rejoining the program and talk about the way that these Community Advantage loans would benefit the small business communities that you serve?

Ms. KENNEDY. Thank you. I cannot overstate that because those small businesses, especially economically disadvantaged businesses, critically need this program. And as PPP stabilizes these businesses, they are going to be ready to grow. Underserved communities were hardest hit as a result of the pandemic, and Community Advantage targets those communities. So we really need to make the program permanent and need to open up for new CA lenders. And we would absolutely want to be part of that conversation. We have businesses who need the help, and they call us for the help.

And as a Community Advantage lender, we will be able to help this veteran who just called our office the other day. Got some new government contracts but needs help from a program many that Community Advantage could serve.

So thank you. We would love to support you in doing that.

Ms. CHU. Great. And you have also talked about the unique challenges facing sole proprietors and PPP. They are more likely to be women and people of color who lack access to traditional banks. Can you say what issues they have and why they need programs like yours?

Ms. KENNEDY. Well, those businesses by and large need more hand-holding. They don't have access to great CPAs or bookkeepers. They are putting their information on a spreadsheet or maybe they have QuickBooks, but they need hand-holding. And it is community-based lenders, mission-based lenders who do that kind of hand-holding to make sure they can get the resources that they need and then to be able to have the resources to provide them.

So 80 percent of America's businesses are nonemployer businesses. Those are the small Schedule C filers. They need additional hand-holding. And mission-based lenders or community banks really provide that kind of support that they will not get at larger, nontraditional banks.

Chairwoman VELÁZQUEZ. The gentlelady's time has expired.

The gentlelady from California, Mrs. Kim, is recognized for 5 minutes.

Ms. YOUNG KIM. Thank you, Chairwoman.

And I would also like to thank our Ranking Member Luetkemeyer for holding this very, very important hearing today.

With the Biden administration announcing five changes to PPP on February 22 of this year, the looming March 31 deadline does not give our small businesses the time to adjust to the new guidelines issued by the SBA. I am also concerned that the SBA is not forthcoming and transparent when it goes beyond the statutory 90-day period to review the loan. The SBA should be communicating with borrowers and lenders about the status of the loan if it goes beyond the 90-day period.

And I would like to engage Ms. Frazier in the next round of questioning here. To date, the SBA has cleared approximately 36 percent of all PPP loans through the forgiveness process. However, certain loans that are not processed right away have tended to let beyond the 90-day review window imposed by the SBA. So has your institution dealt with any of these loan reviewers taking longer than 90 days? And what steps can SBA take to make the loan forgiveness process more efficient?

Ms. FRAZIER. Thank you for your question. We do have loans that have been in the forgiveness portal for longer than 90 days. They tend to be the larger loans. They are taking longer. And you identified correctly, there is a lack of communication to the bank and to the borrower, which is causing a bit of stress on the borrower's side because they are concerned about, you know, what if it is not forgiven, what happens then. So we completely agree with what your statements are.

I do think communication, where they are in the process, what is happening, what they need, would be really helpful overall in at least calming the fears of the borrowers and allowing us to keep things moving forward and gathering the information that they need. That would be the number one request of what would need to be done.

Ms. YOUNG KIM. Well, following up, we have heard from numerous sources and constituents about the delays in processing loans due to SBA hold codes. Can you comment on your experience with these hold codes and what the typical length of delay looks like when addressing the code?

Ms. FRAZIER. The length of delay could be 2 days. It could be 2 weeks. It could be, as the example I shared earlier, since January 29. It really depends on our ability to access information and what that hold code might be.

If it is something that we can resolve without the SBA, maybe there is a piece of documentation missing or there is a number that isn't quite right, we can get that done fairly quickly inside just a day or two or few days. If it is something that we need to rely on the SBA or really need to get information from them to clarify what they are looking for, it will take considerably longer over time.

Ms. YOUNG KIM. Well, do you believe extending the March 31 deadline could help alleviate the delays with the hold code?

Ms. FRAZIER. It could. It at least would be able to resolve them and allow people to access the money that they have applied for and be able to take care of those needs.

Ms. YOUNG KIM. Well, thank you.

With that, I will yield my time back.

Chairwoman VELÁZQUEZ. The gentlelady yields back.

Now we recognize the gentleman from Illinois, Mr. Schneider—welcome back to the committee—for 5 minutes.

Mr. SCHNEIDER. Thank you, Madam Chair. It is wonderful to be back. I am excited to be working with you and my colleagues on this important Committee. Thank you also for holding this important hearing. I want to thank the staff for helping us work through the challenges in these difficult times and obviously thank our witnesses for sharing with us your experiences and perspective as we try to understand this issue.

Very soon we will vote in the House on the Senate amendment to the American Rescue Plan and send it to the President for his signature. I am very grateful that this legislation includes another $7.25 billion for the Paycheck Protection Program and expands the businesses eligible for critical funding.

Our goal with PPP has always been helping our businesses, in particular our small businesses, get to the other side of this pandemic. The American Rescue Plan will help assure that when we get to the other side of the crisis, our small businesses will benefit from a growing economy and hopefully be able to chart a path for recovery and renewal. Obviously, that seems to be putting us on that path, on beating back this environment, but it is not certain when we will finally get to full recovery mode. And that is why providing the support for small businesses is so important.

For many businesses in our district, PPP funds have literally made the difference between being able to hang on and weather the struggles of the past year or having to close their doors oftentimes for good.

I appreciate everyone's testimonies. I have heard and shared with colleagues many of the same concerns that we brought up here. I will come to the error codes, but I want to talk first and maybe—Ms. Kennedy, you mentioned this. Others said it in their testimony as well. As we look to the future, people are trying to figure out how will they get through this and then think about what is next after, because it is not easy to go to the next place. You touched on the need for financial education, technology education. What things, whether it is your own group, CDC, that is doing this or the SBA, more broadly, what type of education and training do you think is most important to help businesses get to the recovery and chart their future beyond that?

Ms. KENNEDY. Thank you, Congressman. I think one of the things that we have said in this process is the wheat and the tares have been separated. And we learned throughout this process that business financial literacy, business acumen literacy is so very critical. A lot of the small businesses that we worked with really did not understand their financial statements, didn't understand cash flow, didn't have reserves. So the opportunity to pivot, the opportunity to adjust, they couldn't do it because they didn't have that training.

So the SBA has incredible programs through the SBDC and SCORE, as you have heard, and through partners like the CFIs, CDCs, SBA micro lenders to provide that kind of technical assistance to help people understand their technology and understand their business financials. That literacy is really critical.

Mr. SCHNEIDER. Great. Thank you. I think it is important. We have been having webinars, the support for these companies, entrepreneurs. Sole practitioners were just trying to provide for their families. I think it is crucial.

I could talk to everyone about this, but I want to get to these error codes as well. Time is of the essence. These businesses are literally holding on by the day. It is important and applications have been checked for errors and inconsistencies that could show fraud. But, oftentimes, as has been earlier noted, that there are sometimes flags that go up that are not fraud but maybe a clerical error or something like that.

Ms. Simpson, I will turn to you. You talked about how many applications have been flagged incorrectly, and a business losing a week or even 2 weeks could be the difference between getting through this pandemic or not. Any thoughts you have on how we can accelerate the process, not of making it easier for people who abuse the system, but making it easier for people who are incorrectly flagged to get through the system and get the support and assistance they need?

Ms. SIMPSON. Thank you so much for the question. I think transparency into what is causing a hold code and what resolution steps concretely are needed to move beyond a hold code is where so much time could be gained. Having a manual that says, if you have got this error code, these are the exact steps that either the borrower needs to take or the lender needs to take, these are the absolute sources of information that, if you supply, the hold code can be released and moved on into a loan application process.

Mr. SCHNEIDER. Thank you. I am out of time. I could ask everybody, but I yield back.

Chairwoman VELÁZQUEZ. The gentleman yields back.

The gentlelady from Texas, Ms. Van Duyne, is recognized for 5 minutes.

Ms. VAN DUYNE. Thank you, Madam Chair and to the Ranking Member, for holding this hearing today.

When I talk to small business owners in Texas, they tell me two things: PPP was crucial for surviving the most challenging days in the pandemic, and that they aren't looking for any more handouts. They don't want to just hang on anymore. They want a chance to earn a living. They want to be able to open their doors and they want to be able to get their customer base back. It has been an entire year that we have held businesses back in the name of public health.

The bottom line is the best relief we can give these businesses is to remove government-mandated constraints and allow them to get back to work.

The Paycheck Protection Program was designed to be temporary and targeted and, unfortunately, as demand for the PPP has gone down, my colleagues across the aisle are still eager to add more money to the program, even as over $100 billion dollars remains unused.

As a Committee, we need to be focused on fixing the remaining issues of PPP, while also figuring out a way to bring this pandemic-related program to an end.

And with that, Ms. Frazier, community bankers were on the front lines of delivering PPP loans. In your testimony, you cited that community banks made 60 percent of the first-round PPP loans. Now almost a year later, how do you see this program coming to an end and a transition to recovery being made?

Ms. FRAZIER. Thank you for your question. In round two, I suspect that community bankers continue to be meeting in the efforts of delivering the PPP loans. I believe the benefit of that is the community bankers are able to really work with the borrowers and be partners in helping them look forward.

But beyond PPP, I go back to I think there needs to be more investment into the programs that can support these businesses in helping them understand, as Ms. Kennedy said, their financials, understand their business model, understand how they can move forward as well and supporting them. Banks can continue to support and partner with the businesses, helping them grow, helping them understand the opportunities for them. But there needs to be another party that can support them in understanding their business overall.

Ms. VAN DUYNE. So as the Ranking Member of the Oversight, Investigations, and Regulations Subcommittee, it is important to me that we give our small businesses the best opportunity to succeed coming out of the pandemic. And this means removing any unnecessary red tape.

So, Ms. Frazier, again, are there any SBA regulations, whether for PPP or other programs, that this Committee should be reviewing to help our businesses recover?

Ms. FRAZIER. For the small businesses, the most recent changes to the forgiveness application have been $50,000 or less on those loans. I think that has been a huge benefit for them and for others. The changes to the second draw has been a big benefit. SBA as a whole, I think that continuing to work with the community banks, to deploy the other programs and be able to, as was noted earlier in the conversation, make those approvals more timely and consistent would be very helpful.

Ms. VAN DUYNE. All right. Thank you very much.

I want to thank all of our witnesses for being with us today.

And I yield back.

Chairwoman VELÁZQUEZ. The gentlelady yields back.

Now we recognize the gentleman from New Jersey, Mr. Kim, for 5 minutes.

Mr. KIM. Thank you, Chairwoman, for pulling us together here.

I know many of us are looking forward to the warm weather ahead, the summer ahead, and enjoy some outdoor activities. Many of the businesses in my district are seasonal businesses along the Jersey shore, and they had a really tough season last——

[Audio malfunction.]

Chairwoman VELÁZQUEZ. I am going to yield to the gentleman from Florida, Mr. Donalds, because Mr. Kim is dealing with some technical issues. We will get back to Mr. Kim.

Mr. Donalds.

Mr. DONALDS. All right. Thank you, Madam Chair.

Listen, this has actually been a great conversation. Madam Chair, I thank you, and, you know, thanking the Ranking Member, Mr. Luetkemeyer of Missouri, for really bringing us together as we begin to unwind the PPP program. And I would stress, members, we have to really look at beginning to unwind and sunsetting this program.

It is clear that the program, obviously, we designed it to challenge and to help the challenges of the COVID-19 crisis. With the rate of vaccinations that are occurring in the United States amongst the vulnerable populations, people over the age of 65, also combined with the facts that you have many States that have already begun reopening, we have to make a decision here. And one of the clear decisions is, are we going to continue, for how long, this loan guarantee program?

One of the things that actually really came out to me during this testimony from all of the witnesses is that one of the issues isn't really, per se, PPP in and of itself, but it is an ongoing issue in the United States, and that is the lack of community banks to address all of the financing needs of small businesses and micro businesses in communities both rural and urban and suburban across the United States.

And if this Congress is going to take this matter seriously, we have to begin to take a look at the statutory and regulatory environment upon which community banks have to operate under, which is why, in part, we have seen an almost 50 percent decline in the amount of community banks in the United States—in the United States, excuse me—since the passage of Dodd-Frank more than a decade ago.

So I think it is time that this body begin to take even more steps to allow the community banking industry to flourish in the United States so we actually can address systematically the issue of banking deserts, the issues of access to capital, the issues to actually help all of our small businesses and micro businesses, whether they happen to be led by women or minorities or anybody else who operates businesses here in the United States.

Really, I just have one question, and it is actually—is a piggyback off of the question from Mrs. Kim of California, and it is directed to Ms. Kennedy.

Ms. Kennedy, real briefly, if Congress decided to extend the PPP program, how long of an extension do you think will be needed to clear the current backlog to help those business owners who have applied but they are waiting to get through their hold codes and the like?

Ms. KENNEDY. Thank you so much for the question. You know, my association, NADCO, we have not taken a firm position on the amount of time, but from talking to our staff, we believe 60 to 90 days would give the time to address some of those error codes and to try and make sure these Schedule C businesses get the help that they need after getting the application just approved on March 3

There are so many businesses who need to make sure that they can qualify with the new guidelines of Schedule C, and there are a number of businesses that need that help.

So from our personal advantage, a 60- to 90-day could certainly help us to get through some of our backlog.

Mr. DONALDS. Thank you so much, Ms. Kennedy.

And, Ms. Frazier, same question to you. I know the banking community obviously is looking very closely at this, and, you know, obviously you guys have a continuing relationship with SBA. As a former credit officer in a bank, I have always enjoyed my dealings with the SBA—and, yes, I am being highly sarcastic—but, you know, Ms. Frazier, with respect to your industry group, what would you guys recommend to Congress if we decided to actually make a temporary extension to unwind the backlog?

Ms. FRAZIER. First of all, I want to thank you for your support of community banks. Really appreciate that.

And, secondarily, in response to your question, we don't have a specific timeline, but I think in agreement with Ms. Kennedy's timeline, 60 to 90 days should certainly allow for the errors to be resolved overall and to accommodate the changes or allow the borrowers that are now eligible under the new changes to get through the program.

Mr. DONALDS. All right. Thank you, Ms. Frazier.

Thank you, witnesses, for your time.

Thank you, Madam Chair. I yield back.

Chairwoman VELÁZQUEZ. The gentleman yields back.

Now we recognize the gentleman from New Jersey, Mr. Kim, for 5 minutes.

Mr. KIM. Thank you. Thank you, Chairwoman. Hopefully, this works better this time around.

But what I was just getting at was just, you know, the seasonal businesses that we have in the Jersey shore. And in December, Congress, we passed additional help for seasonal businesses, allowing them to apply for an increase to their first-draw PPP loan based on a 12-week period of their choosing that better represents their normal revenue.

For a lot of seasonal businesses, this first-draw increase has been a lifesaver. But I have heard from other seasonal businesses in New Jersey that they have been turned away by their first-draw lender, basically being told, quote, "We are not doing this," or, quote, "There is too much paperwork." And, unfortunately, they don't have other options to go to a different lender.

My office called one lender, one of the big banks, asked why they were turned away, customers for first-draw increases, and suddenly they started processing them.

We contacted another one, and after hearing that their policy made by someone up the management train was not to process these topoffs, I gave them a chance to correct the record in advance of this hearing, but they still haven't gotten back to me or processed that increase for a business on the shore for about $70,000 that they are eligible for.

Who knows how many other businesses or others are experiencing this or being turned away. I know we are asking a lot of lenders right now, and that they worked hard to get all this PPP money out over the past year, but Congress did authorize first-draw increases to help seasonal businesses. And I find it unacceptable that some lenders, particularly the larger ones, are simply choosing not to do it.

I wanted to start with Ms. Simpson. Have you heard of this happening, or are there other challenges that you are hearing from seasonal businesses when it comes to receiving their first-draw loan increases?

Ms. SIMPSON. Thank you for the question. We are—I am going to pick up my phone. I apologize. My headphones died. I have been on here for a while. So I apologize for the awkwardness.

But, yes, we have heard that borrowers are not having much luck getting loan increases approved. So that is not an isolated incident to the Jersey shore.

Mr. KIM. Yeah. This is something that I am just trying to get a sense of, just that, you know, how—you know, how significant this is and how widespread it is.

Maybe a followup with Ms. Kennedy or Ms. Frazier. As small lenders, have you helped any customers with first-draw increases? Just trying to get a sense of your perspective from your end.

Ms. KENNEDY. We have tried to help small businesses with first-draw increases, and that is part of where we get some of the error codes and it becomes an issue for us. And that is why this time that we are asking for to be able to work through those and get resources on addressing the error and hold codes would help us to be able to help more small businesses get that increase and address some of those concerns.

Thank you for the question.

Mr. KIM. Ms. Frazier, anything you wanted to added on your end?

Ms. FRAZIER. We have not had any seasonal businesses—we haven't processed any PPP loans for seasonal businesses for that increase. I can't speak directly to that.

We have had requests only from two borrowers to increase their original loan. As part of the process, once it has been reported on the form 1502 to the SBA, there is reluctance or there is quite a bit of pushback on actually processing that increase.

Mr. KIM. Okay. Well, thank you for that perspective, something that I will be looking to follow up on.

I would also like to just highlight that SBA issued a new interim final rule last week allowing sole proprietors or Schedule C filers to use their gross revenue to calculate their PPP loans. This was a welcomed change, finally making PPP worthwhile for more of the smallest, most underserved businesses. But as Ms. Frazier noted in her testimony, borrowers who had already applied for the PPP loan before the rule are being left with a smaller amount and are not being made whole.

SBA is claiming they don't have the authority to make this rule retroactive. And, Madam Chairwoman, I know you share my view that sole proprietors who already took a PPP loan should be able to use their gross income, and I ask to be able to work with you and others together on a solution to make sure they are treated fairly.

And so, with that, thank you, and I yield back.

Chairwoman VELÁZQUEZ. The gentleman yields back.

Okay. With that, let me take this opportunity to thank all our witnesses for their illuminating testimony. Your experiences have given us insight into the current state of PPP and the impact of reforms that the Biden administration put into place. I am pleased to hear that these changes have helped money reach underserved businesses, but it is clear that there is more we must do.

On this committee, we will continue to work to make the program more equitable and accessible for the smallest of small businesses. The public health situation surrounding the virus is improving, but we cannot let up. Small businesses still need our help, and we must work to ensure this program is serving their interests. That means continuing to evaluate the coverage of PPP and making sure—or making the necessary tweaks to maximize the program's reach and impact.

I ask unanimous consent that Members have 5 legislative days to submit statements and supporting materials for the record. Without objection, so ordered.

If there is no further business before the committee, we are adjourned.

[Ms. Lisa Bombin did not submit her QFR's in a timely manner.]

[Whereupon, at 12:16 p.m., the committee was adjourned.]

APPENDIX

The Next Steps for the Paycheck Protection Program

Testimony before the
U.S. House of Representatives
Committee on Small Business

March 10, 2021

Submitted by:
Hilda Kennedy
Founder/President
AmPac Tri-State CDC, Inc., dba AmPac Business Capital
Ontario, CA

Chairwoman Velázquez, Ranking Member Luetkemeyer and my Congresswoman Judy Chu, distinguished members of the Committee, good morning and thank you for having me today. My name is Hilda Kennedy, and I am the President and Founder of AmPac Tri-State CDC in Ontario, California. I am also a board member of the National Association of Development Companies (NADCO), the trade association reprsenting more than 200 private, nonprofit SBA Certified Development Companies (CDC), and I am also pleased to testify today on behalf of NADCO and my CDC colleagues. I am thrilled to have the opportunity to discuss the role CDCs have played, and will continue to play, in supporting businesses impacted by the COVID-19 pandemic, my CDCs participation in the Paycheck Protection Program, our commitment to providing access to capital to underserved borrowers, and policies that could help us reach more small businesses.

My journey to becoming a CDC came after working in local government as a Chief of Staff to the Mayor and in Economic Development for the City of Inglewood, California, where 90 percent of the community is African American and Latino. While I was Economic Development Director, business owners would come to our office seeking resources because they could not access capital from their local bank. Because this story became so common, our team worked to obtain HUD Section 108 funds and, coupled with funds pledged from three banks, established a $45 million loan pool to lend to businesses in our own community. After leaving Inglewood to focus on mothering my three children, I began to see and research the needs of businesses in my new community. As part of my research, I established a Pastors Advisory Committee at my church to gain further insight into the needs of these businesses. The pastors I spoke to described the need for small businesses to have someone to walk hand-in-hand with them in order to get access to capital, including help completing applications and understanding the financial documents required. In 2005, with the coaching of a mentor in economic development, I established our non-profit and began the process of becoming an SBA CDC. It took two years, and in 2007, we became the first faith-based CDC in the country, with the intention to market to and engage the faith-based community in identifying businesses who needed SBA resources. We sought to engage the faith-based community for three reasons: 1) whenever we attended an awards program for small businesses, someone was thanking their God for strength and courage in business; 2) because we wanted to serve underserved communities and we understood that whenever major social and economic change happened, especially in Black and Brown communities, it started in the church; and 3) faith is part of my core values, I am married to a pastor and we are active in the faith-based community.

When I started AmPac, like my small business clients, I did all the jobs – processor, underwriter, closer, servicer, and everything in between, until one of my board members agreed to pay the salary of a staff member. When the 2008 financial crisis was realized, my board member could no longer pay that staff member and I chose not to get paid, so that I could pay her. I struggled with the same issues that small businesses face and asked myself if I should close my doors and find a job since my husband also worked for a non-profit, a local church. However, the mission of serving small businesses, making communities better, and families stronger, drove me to struggle through – and struggle we did for three long years before things started to turn around.

Fourteen years later, we are still serving small businesses with the same core mission, but now with 15 employees and expanded programs. We are an SBA CDC administering the 504 loan program, an SBA micro lender, a community development financial institution (CDFI) and we manage and administer a loan program for Riverside County. We are the among the newest

CDCs in our market, with most being more than 20 years older than AmPac, and we serve small businesses throughout the state of California. As an SBA micro lender and CDFI focused on small business lending, we are the only CDC headquartered in our region, which includes San Bernardino and Riverside counties, two of the largest counties in California. Being headquartered in this region allows us to intimately understand the access to capital needs of the business owners in the region, and provide the services they need.

Access to capital has traditionally been a critical issue for entrepreneurs and small businesses as they seek to start and grow businesses. Those challenges were deeply exacerbated by the onset of the COVID-19 pandemic and the CDC industry stepped up to do everything we could to help our current borrowers, new borrowers, and small businesses in our communities. That is because CDCs are committed to economic development and providing access to capital to underserved small businesses, including women, minorities, and rural areas. CDCs in the United States provide approximately 374 points of access to assist small businesses in all fifty states; Washington, DC; Puerto Rico; and the U.S. Virgin Islands.

CDCs come in all shapes and sizes and offer a variety of programs to aid in the economic development and building of strong and healthy communities. Through our mission, we are the entities that deliver the 504 loan program, which is the SBA's premier economic development program. This program requires borrowers to create jobs or meet a congressionally identified public policy goal in order for a borrower to receive a 504 loan. A number of CDCs also deliver the SBA's microloan and 7(a) Community Advantage programs. Community Advantage enables CDCs and other mission-based lenders to deliver guaranteed loans of up to $250,000 to small businesses that are underserved by traditional financial institutions. Since the pilot program was created ten years ago, CA lenders have delivered over $860 million to entrepreneurs who could not otherwise access the capital needed to launch and grow businesses. Community Advantage will play a critical role in our nation's economic recovery from COVID-19, and can achieve its full potential in reaching underserved small businesses if fully authorized, enhanced, and expanded. There is tremendous opportunity for CA lenders to aid in the recovery of our most vulnerable businesses.

CDCs across the country are like ours – they deliver an array of programs from the Department of Housing and Urban Development, Department of Agriculture, Department of Commerce, Department of Treasury, and Economic Development Administration, not to mention state, local and direct lending programs. CDCs wear a lot of hats as we work with different agencies and state and local programs to meet our mission of innovatively delivering the best product to meet the needs of borrowers in our communities. As mission driven, community-based lenders, CDCs are uniquely positioned to support and sustain businesses in this crisis. When the pandemic hit, AmPac made two firm commitments 1) keep our employees safe and 2) personally answer every call from the small businesses who would call our offices. We did not want small businesses to get a voicemail, we wanted them to hear a live person. We studied and stayed abreast of the ever-changing regulations that were uncharted waters for all of us. We learned so much more about our small business customers and small businesses in our communities who saw us as a safe, go-to place for answers and help. With rotating calls on our cell phones, we entertained hundreds of calls a day to try and help the small businesses in our community.

I want thank Congress for acting so quickly – we did have several clients who were able to get help from both PPP and Economic Injury Disaster Loans (EIDL). And of course, the six-months of debt relief made available through Section 1112 of the CARES Act (P.L. 116-136) provided an immediate and much needed reprieve to our microloan and 504 borrowers, and frankly to us as an SBA lender. However, the first round of CARES funding did not benefit the small businesses most at risk, including those in underserved markets, those without an established relationship with a conventional bank, and those who needed more assistance navigating the process. In the first round of CARES Act funding, both EIDL and PPP left many of the businesses we serve were very discouraged and even distraught. Changes needed to be made to extend help to more borrowers.

Congress recognized CDCs and their mission by designating CDCs as "Community Financial Institutions" along with Community Development Financial Institutions (CDFIs), Minority Depository Institutions (MDI)s, and micro lenders in the Paycheck Protection Program and Health Care Enhancement Act (P.L. 116-139), which allowed CDC to access the the PPP set-asides targeting underserved businesses and communities. With these changes made to intentionally reach entrepreneurs and businesses in underserved markets with a set-aside of PPP funds for Community Financial Institutions (CFIs), we were thrilled and set out to serve clients who needed more help. But those efforts were hampered because the guidelines had not been established to onboard CFIs who were not traditional SBA 7(a) lenders.

I want to publicly thank the office of my Congresswoman, Judy Chu and the office of then-Senator Kamala Harris who helped us get attention on the issue of establishing guidelines to get CFIs set up to provide PPP loans. As we worked through the overloaded system with our small staff, we were able to fund 171 PPP loans totaling $3 million with an average loan size of $17,000, administer a relief loan program for our local county, a grant program offered by a local bank, support a grant program offered by a utility company and assist hundreds of businesses seeking to obtain an EIDL. These programs heightened our understanding of the need for technology training and business financial literacy training – there are deficits among business owners of color and those in underserved and underbanked communities and we have to close that gap. CFIs need additional resources to provide a higher level of technical assistance to these business owners to help them gain economic parity. I would note that for long term recovery, providing technical assistance grant assistance for CA lenders to intentionally provide support to these businesses could make a significant difference in how these small businesses grow and expand when the next worldwide or local emergency comes our way.

When the current round of the PPP was launched, we were intentional about creating partnerships so that we could reach more underserved and women business owners. We conducted training webinars with Black and Latino led non-profits catering to small businesses, as well as the faith-based community and non-profits targeting women. Our goal was to train the trainers so that we could serve sole proprietors and those small businesses with 20 or fewer employees. We knew how critical this support was when a woman owned business found our information on the local SBA district office website and rather than call that office, she saw we were a CFI and drove to our office with her paperwork in hand. She had been trying to get her second draw PPP from the fintech company she used to obtain her first loan and could not speak to a live person. She realized they had understated her first draw PPP loan and she wanted some help. We could not help her because her request exceeded our lending limit but we connected her with a local community bank, helped her to accurately calculate her qualifying PPP loan amount, and she was able to get her second draw PPP from the local community bank. She thanked us profusely for the help and said if she needs any SBA assistance in the future, she will come to AmPac. These are just a few examples of the way we have worked with distressed business owners in our community and the way we have worked to deliver all available emergency programming to these businesses. With the intent to reach as many small businesses as possible while emergency relief is still available, I want to focus the remainder of my time highlighting some recommendations for a path forward with 21 days left before the March 31st deadline:

- In the initial roll out of first and second draw PPP in January 2021, lenders found ourselves facing challenging issues with the PPP portal. There were countless error messages and holds that really brought frustration to our team and our small businesses to whom we could not give answers. At the time, there was no solution for a fix and the communication from SBA was non-existent. With the changes made to PPP on February 24th, the SBA and its team addressed many of the error and hold messages. It was as if a magic wand was waved over the portal, and all of a sudden several of our submitted PPP loans were being approved. While this effort really helped, there are still issues with error messages and holds and it is difficult to get a retuned call or email. In order for us to have a strong finish to help small businesses receive the PPP they need before March 31st, we need to have SBA staff members or a system that is more responsive to addressing the error and hold codes so they can get solved and these businesses can get the help they need.
- I want to thank Congress for moving quickly on the effort led by Self Help Community Credit Union and a number of partners including NADCO, OFN and Mission Lenders to change the maximum loan calculation for Schedule C filers, allowing them to use gross income rather than net profit on their PPP applications. This change has been a god-send for the small businesses in our community. I want to share a story about the custodial maintenance company that cleans our building and is helmed by a Black business owner

named Calvin, who had not been able to get any assistance from the emergency relief programs. He talked to us during the first round of support and about his efforts to get an EIDL loan; he even appealed because he was declined. We tried to make some calls on his behalf and after several attempts, they told him he did not qualify for EIDL and he was not even able to get an EIDL Advance. Based on the line 31 calculation for Schedule C filers originally required for PPP, he would not be able to obtain a loan because he reported negative net income. When our state launched the California COVID-19 Relief Grant, we prepared him to apply. I told him the process opened at 6:00 a.m. At 5:45 a.m. he was calling my cell phone to make sure he was on the right website and that he had everything he needed. At the end of both rounds, he was waitlisted. Typically a very optimistic person, he came into my office when I was working late and said, "Hilda, I don't know what to do. I am going to have to lay my guys off and do the work myself." When we got the news about the Schedule C change, we told him to get his paperwork. Our team stayed on the phone with him and screen-by-screen he uploaded everything and was approved for a $13,000 loan. Just the feeling of not being rejected, just knowing someone finally said yes, seemed to breathe life into him. I share that long story with you because I want you to know, your actions made a difference. And they can go further.

Chairwoman Velázquez, Ranking Member Luetkemeyer, my Congressional Representative Judy Chu and distinguished Committee members, we have many Calvin's in our community and I know several of my CFI colleagues do as well. We need time to help these small businesses. The largest of businesses got their opportunity in the first rollout of PPP, squeezing out small businesses like Calvin. I am asking that Congress give these businesses time to understand how the Schedule C changes affect them and get their applications submitted. Congress did what was right for our economy by allowing Schedule C filers, like farmers, to have access to a greater amount of PPP funds to keep their doors open. So many of the Schedule C filers missed this opportunity for a higher PPP loan in the first round and in this round of funding because this benefit was only recently extended to them. Our Schedule C filers have a name, they have a demographic, and they have an employee count:

   - They are Calvin's custodial maintenance; they are Katherine's Hair Design; they are Lisa's Charmed Beauty; and Graham's BBQ and the list goes on;
   - They are 95 percent Black owned businesses and 91 percent Latino owned businesses in my community;
   - They are often single operators, mom and pop shops in your downtown, and they have 20 or fewer employees.

- With these businesses in mind, we must extend the deadline for Schedule C filers to be given exclusive access to the PPP application process. It took a full week for lenders to receive the appropriate guidance, and most importantly, the updated forms to submit applications. The Schedule C exclusivity ended on March 9, 2021, yet the appropriate forms to use were just released on March 3, 2021. So many of these small businesses have thrown their hands up and concluded that there is no help for them. Now there is the possibility that other businesses like Calvin's can get the lifeline they need.
- Additionally, if Congress chooses to make any further changes to PPP through the legislative process, I hope you will also consider extending the Federal Reserve Paycheck Protection Program Liquidity Facility (PPPLF), which has been a lifeline providing liquidity for participating CDCs to continue to deliver the PPP to the borrowers we serve.

- With recovery in mind, I will repeat a comment I made earlier regarding Community Advantage. Community Advantage is a perfect SBA tool for getting capital to underserved communities. With these businesses stabilized with a PPP loan, they will need funds to grow and to scale. We need to add more diverse lenders to the Community Advantage pool of lenders and we need to increase the number of Community Advantage lenders immediately. I know there is a list of qualified lenders ready to serve and they need SBA to take action to approve them. The 90 percent guarantee for CA loans provided in the Economic Aid Act (P.L. 116- 260) is also an essential tool to ensure that this program can reach the communities hardest hit by the pandemic.
- We will continue to work tirelessly to deliver the relief that PPP loans provide to small businesses. Speaking as a lender, and on behalf NADCO and my CDC colleagues, I also encourage Congress and the new leadership at SBA to consider how the core SBA loan programs can better serve our small businesses through what promises to be an extended recovery period. We are dedicated to making sure small businesses and entrepreneurs have access to a range of financing products and support, including SBA 504 loans, Community Advantage, and Microloans.
- Finally, I want to thank this Committee for its leadership in approving immediate and impactful aid to small businesses via SBA debt relief payments afforded them in Section 1112 of the CARES Act with extended debt relief for the hardest hit businesses provided in the Economic Aid Act. I am not overstating the impact of these payment when I describe them as providing a lifeline to our borrowers. Unfortunately, there is a funding shortfall for debt relief payments directed to these borrowers, and targeted to the most impacted small businesses. I know members of Congress are aware of this issue and

committed to doing all they can to assist these businesses, so I am hopeful that this shortfall can be addressed, and these borrowers receive the support they need to stay afloat and continue to provide jobs and services in our communities.

As I hope you already know from the CDCs that are in your communities, AmPac and the CDC community will be here to serve small businesses, help them recover, and support their growth. I sincerely appreciate the opportunity to testify this morning and share AmPac's experience with the PPP program and our mission to reach underserved borrowers. I look forward to answering any questions you have.

U.S. HOUSE COMMITTEE ON SMALL BUSINESS

Nydia M. Velazquez, Chairwoman

Hybrid Hearing: "The Next Steps for the Paycheck Protection Program"

Wednesday, March 10, 2021

Witness Testimony:
Ms. Lisa Bombin
President & CEO
Unico Communications, Inc.
San Antonio, Texas

Thank you Chairwoman Velazquez and the Members of this committee for affording me a moment of your time to share my story as a Latina Small Business Owner.

I have been the proud owner of Unico Communications, a 16-year event production company and a Latina-owned business headquartered in San Antonio, Texas. We have a long history of producing large-scale events for the nation's most reputable non-profit organizations. I am honored to represent the larger event industry that includes master story-tellers, writers, planners, producers, audio and video engineers, caterers and so many more magicians that work behind the scenes of our most memorable celebrations, concerts, galas, conferences and the like. Along with hundreds of other event companies across the country, the pandemic left my business scrambling for a new plan and a method to sustain my staff and execute payroll in the midst of so much uncertainty.

The merciless effects of the resulting shutdown were evident in the swift volume of event cancellations that followed. Our business came to an abrupt halt. The only alternative was to suspend my own salary to retain as much cashflow enabling me to keep our staff secure and fully-employed for the immediate future.

After several emotionally exhaustive days of seeking a new business strategy and plan, we had a glimmer of hope when Congress established the Paycheck Protection Program (PPP) in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). To say the initial roll-out was "problematic", may be an understatement. I, like so many other small businesses, had been banking with a well known national bank when the application window opened. And like so many small minority-owned businesses, we were left in the dark. Our financial institution offered no method of submitting an application, rather a landing page to "stay tuned" for more details. We found ourselves seeing the hours slip away and feeling the anxiety rise as our peers and fellow business-owners confirmed their applications had been successfully processed, all while payroll deadlines loomed for our team.

After multiple attempts to submit our application we contacted the United States Hispanic Chamber of Commerce to seek advice and technical assistance. The USHCC recommended that we submit a PPP application through a small community bank as they had been seeing an increasing track record of success from other members across the country. Furthermore, the USHCC was one of the few national organizations providing technical assistance in both English and Spanish to minority-owned businesses and worked with the SBA to have them translate their resources into multiple languages. We had no list from which to start, so my husband and I began making calls and scouring the internet through the night, to research local banks across our state to see if they would accept applications from new customers. We were fortunate to have had success in submitting and securing this PPP loan through Pioneer Bank, a small Texas regional institution. Sadly, not all businesses like mine were able to secure a PPP loan and have succumbed to closure. According to a study published by Small Business Majority which surveyed small and minority owned business owners: One in 3 say the process of applying for the PPP was challenging due to the calculations and paperwork involved. Nearly one in four said that finding a lender willing to accept their application was challenging.

Now more than ever, small minority-owned businesses need the U.S. Small Business Administration and its portfolio of loans and technical assistance programs. Our business' membership with the U.S. Hispanic Chamber of Commerce helped me navigate this convoluted process through their communications. Furthermore, I received technical guidance from the University of Texas at San Antonio's Small Business Development Center (UTSA-SBDC) and additional funding through the City of San Antonio's Recovery Grant Program facilitated by LiftFund, a Community Development Financial Institution (CDFI).

These three entities were critical in my business success during one of the most unprecedented economic times in American history. If it had not been for the forgivable loans built into the CARES Act, our business would not have been able to survive because we could not sustain more debt.

As a small business owner, I call upon our Members of Congress to expand PPP loans for our nation's small and minority-owned businesses, and to provide more support and financial resources to the SBA and the Minority Business Development Agency to fund critical technical assistance, in multiple languages, through public private partnerships with Chambers of Commerce and other business associations across the country. Our road to recovery is still vast and organizations like these need to be funded and sustained to continue helping businesses like mine navigate the ongoing economic crisis.

Thank you again Chairwoman Velazquez and members of this committee for your leadership and continued legislative collaboration to ensure the economic survival of America's more than 30 million small businesses, of which 4.7 million are Hispanic-owned.

AICPA

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WRITTEN TESTIMONY OF LISA SIMPSON
ON BEHALF OF THE
AMERICAN INSTITUTE OF CPAS

BEFORE
THE COMMITTEE ON SMALL BUSINESS
UNITED STATES HOUSE OF REPRESENTATIVES

HEARING ON
"THE NEXT STEPS FOR THE PAYCHECK PROTECTION PROGRAM"

MARCH 10, 2021

INTRODUCTION

Chairwoman Velázquez, Ranking Member Luetkemeyer, and Members of the House Committee on Small Business, thank you for the opportunity to talk about the Paycheck Protection Program (PPP) on behalf of the American Institute of CPAs (AICPA). My name is Lisa Simpson and I am the Vice President of Firm Services at the AICPA. In that role, I have worked closely with thousands of CPAs who are assisting their small business and not-for-profit clients navigate the PPP since the program launched last April. We applaud the legislative leadership that created the program, and the efforts of the SBA and Treasury who quickly stood up PPP to provide much needed relief when the pandemic hit. I appreciate the leadership in Congress, the SBA and Treasury who want to work in partnership to resolve issues and improve the operational challenges of this historic program to ensure it reaches as many small businesses and not-for-profit organizations as possible. In my testimony today, I will explain how the accounting profession is helping PPP borrowers, review major PPP challenges, and explain why program challenges and related issues mean Congress should extend the program application period by at least 60 days.

THE ACCOUNTING PROFESSION IS HELPING PPP BORROWERS

CPAs serve as the trusted advisor to small businesses in many ways. Many small organizations don't have professional finance and accounting staff in-house, so CPAs perform many vital functions including payroll processing, tax filings, paying bills, accounting, financial statement preparation, budgeting, cash flow forecasting and more. When the pandemic hit and many businesses were shuttered, small business owners turned to their CPAs for help figuring out how to pay employees, pay the rent, keep the lights on and not lose all of their investment so that when the crisis ended, the business could be in the best position possible to restart.

PPP became a vital lifeline and the accounting profession stepped up to help. To support CPAs and small business owners, the AICPA developed free resources to assist with the complexities of the program. Designed with an eye toward the small business owner who doesn't spend their day in the intricacies of payroll, tax compliance and spreadsheets, the AICPA created free calculators to help ensure businesses and non-profits could accurately calculate the amount of a PPP loan they were eligible for, checklists so borrowers and their CPAs could provide required documentation, loan forgiveness amount calculators and other resources on a dedicated webpage that is open to the public.

The AICPA has engaged with an ecosystem of partners including the SBA, Treasury, Congress, lenders and payroll providers to bring light to areas where additional guidance was needed, or where a common understanding could be developed. For example, we spearheaded a small business funding coalition comprised of more than 30 payroll and lending organizations to provide SBA and Treasury with insights directly from small businesses and those who serve them. Driving a common understanding of the complex areas of the program led to the launch of regular town halls that have grown to include, on average, 9,000 participants. Through these town halls AICPA has been hearing regularly over the past year from hundreds of CPAs who continue to work diligently to help small business owners with this and the previous round of PPP. We created a program pairing CPAs, all volunteering their time, with SBA representatives and Members of

Congress to answer constituent questions about PPP, EIDL, and related tax issues. Finally, throughout the pandemic the AICPA has had regular, ongoing dialogue with Treasury and the SBA to share insights from CPAs and their small business clients, to discuss ways to address PPP implementation challenges, and share ideas for driving business recovery and economic stability.

MAJOR PPP CHALLENGES: ERROR CODES, RESOLUTION PROCESS, AND ADMINISTRATION CHANGES

When PPP reopened in 2021, the SBA included new processes designed to deter fraud, waste and abuse in the program by instituting front-end compliance checks. The AICPA supports the goal of protecting taxpayer assets by taking reasonable steps to limit the risks of fraud in the program. The applications of many thousands of small businesses (estimated at 20 - 25%) have been subjected to significant challenges in being accepted into the SBA's E-Tran system. These challenges have occurred for both First Draw and Second Draw applications due to validation errors that are difficult to decipher and resolve because they occur in the application programming interface (API) between a lender's platform and the SBA's platform. Because this occurs in a digital workflow, many lenders have been unable to determine the cause of a decline status at this stage and borrowers can be caught in limbo for weeks with no way to move beyond the first step in the application process.

If a borrower is able to make it through the digital transmission into the SBA, their application is run through databases that could result in up to 65 error codes. These error codes, many of which are ultimately found to be incorrect, can result in substantial delays (2-6 weeks) for resolution.

Error code examples include:

- An application can be flagged if a database indicates that an owner has a criminal record that makes the borrower ineligible, requiring the lender to connect with the borrower to obtain affirmation that there is no criminal record or to obtain information that the criminal record is not of a nature that makes the borrower ineligible.
- An application can be flagged if a database indicates the business is inactive according to Secretary of State filings or public records. This flag can be tripped if a borrower operates as a DBA, is not current with Secretary of State filings, doesn't have a business license, or other common issues that impact the smallest of businesses on a regular basis.
- An application can be flagged if a borrower uses a social security number on their sole proprietor Schedule C income tax filing instead of a tax ID number. This can disproportionately impact the smallest borrowers.

CPAs supporting small businesses through the application process are encountering hundreds of examples of how false error codes tied to validation checks are delaying critical help for small businesses.

As you know, the Biden-Harris Administration announced changes February 22, 2021, that provided a dedicated 14-day window intended to prioritize PPP loan application processing for businesses with fewer than 20 employees; changed the loan amount calculation for many small business owners who operate as sole proprietors, independent contractors or self-employed individuals and file their business income on IRS Form 1040 Schedule C; and expanded eligibility to additional borrowers with certain criminal records or are behind on certain student loan debt. We applaud the efforts of the Administration to help those small and under-served businesses most in need. However, the forms and guidance needed to implement some of the changes were not made available until March 3, 2021. Lenders who rely on an API to integrate into the SBA's system need time (at least one week) to make changes, further delaying the date these smallest borrowers will be able to begin their journey through the SBA E-Tran system. With an impending March 31, 2021 deadline for the PPP, there is very little time for small borrowers to determine their loan amount eligibility, file an application and resolve any potential error codes and hold codes generated by the current system – all the while operating their business in the midst of local stay-at-home orders, ongoing supply chain issues and customers' pandemic-related needs.

As mentioned, the loan amount calculation for business owners using IRS Form 1040 Schedule C was modified to allow for an increased PPP loan. This change is very beneficial to the smallest business owners who are relying on PPP funds to continue their operations. However, because this change is not applied retroactively, hundreds of thousands of borrowers are not able to take advantage of this much needed relief because they had filed using the previous loan amount formula. This results in inequitable treatment of borrowers who may be running the same type of business in the same neighborhood, but one borrower, simply due to timing, receives a substantially higher PPP loan. CPAs and small business owners have provided examples of relief that could have been 50-60% more if they were able to retroactively adjust the amount of PPP loans for this new guidance.

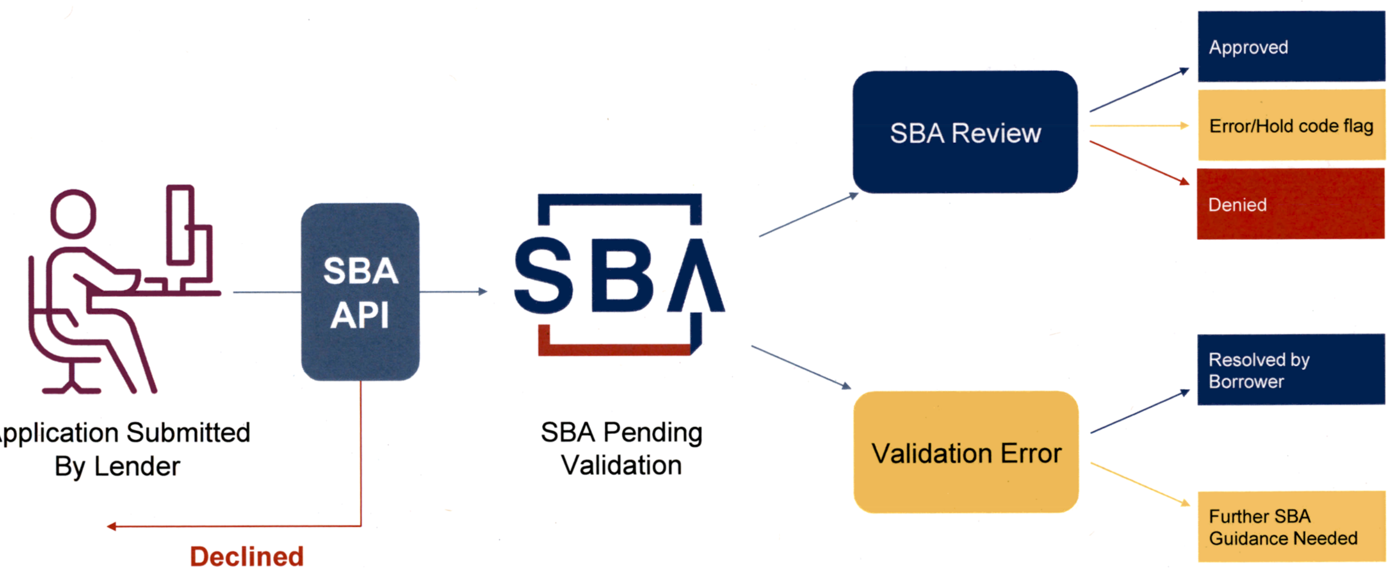
COMPOUNDING PPP CHALLENGES: INTERACTION WITH UNIQUELY COMPLEX TAX SEASON

Small business owners and not-for-profit organizations rely on CPAs to help navigate the complexity and confusion surrounding PPP. During this time where business owners have urgent need for counsel and assistance, CPAs are faced with multiple deadlines and increased complexity. As an example, CPAs are assisting clients in the analysis of the interplay between PPP and the Employee Retention Credit (ERC) to ensure compliance with both programs. This is a complex issue and IRS guidance is still needed in some areas. Compounding that complexity is that recent IRS guidance on March 1 for employers claiming the ERC for 2020 was issued after the filing deadline for 2020 payroll tax returns. CPAs immediately realized that many borrowers will now need to file amended payroll tax returns to access the business relief afforded to them by the ERC. Many CPAs find themselves in a situation where they are learning about new IRS ERC guidance, adapting to changes in PPP guidance, assisting clients with the operational challenges of applying for PPP and working in another COVID-impacted tax season. A small firm headquartered in Brooklyn, NY and who supports many clients in the Chairwoman Velazquez's district, has been helping "mom and pop" clients apply for PPP since the program began. He told us that, compared to this time last year, his firm is 500 tax returns behind– and there are still hundreds of eligible Schedule C clients he could potentially help secure PPP loans, but time is running out. Eligible organizations, particularly small and underserved businesses, and their advisors simply need more time to prepare PPP applications for submission. The AICPA has also urged the IRS to delay the April 15 filing and payment deadline to June 15, but to avoid adding to existing system complexity, we strongly recommend that any extended PPP deadline come before a new tax deadline.

CONCLUSION

The CPA profession has a substantial role in helping small businesses and not-for-profits obtain the much-needed relief afforded by the PPP. There are significant operational problems within the PPP process that are resulting in urgent challenges and significant complexity for many small business borrowers who are trying to enter into the SBA system, and delays in processing once in the system. An extension of the PPP application deadline for at least 60 days after March 31, 2021 will provide an opportunity for the SBA to address its technical issues, provide critical guidance, and work with lenders and borrowers so that small businesses can navigate the application process and receive a loan. While the rollout of this round of PPP has not been as streamlined and efficient as many had hoped, the AICPA recognizes and appreciates the leadership of Congress, and the efforts of the SBA and Treasury to engage with borrowers, lenders, CPAs, payroll processors and others in this public-private effort, to provide relief to the country's small business owners. The accounting profession is committed to maintaining open dialogue with Congress, SBA, Treasury and lenders to help create small-business solutions and drive business and economic recovery.

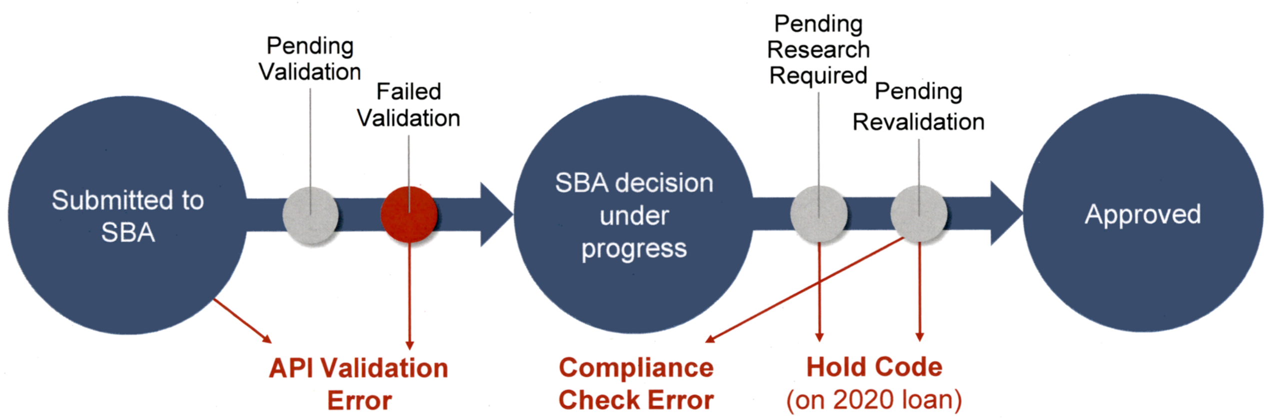
PPP Application Journey After SBA Submission



Source: Biz2Credit

Further Understanding Error Code Phases

- There are multiple phases of SBA validation, compliance checks and decision logic. Three types of error codes can be reported during these different phases. Understanding when an error code is occurring is the first key to understanding what action can be taken to resolve.



Source: Biz2Credit

Testimony of

Alice P. Frazier

President and Chief Executive Officer

Bank of Charles Town

On behalf of the

Independent Community Bankers of America

Before the

United States House of Representatives

Committee on Small Business

Hearing on

"The Next Steps for the Paycheck Protection Program"

March 10, 2021

Washington, D.C.

Chairwoman Velázquez, Ranking Member Luetkemeyer, and members of the Committee, I am Alice P. Frazier, President and CEO of the Bank of Charles Town headquartered in Charles Town, West Virginia. I testify today on behalf of the Independent Community Bankers of America where I am Chair of the Policy Development Committee and a Member of the Board of Directors.

Thank you for the opportunity to testify at today's hearing on "The Next Steps for the Paycheck Protection Program." The PPP has been a lifeline for small businesses in the communities I serve. The Bank of Charles Town is committed to reaching out to ensure that every qualifying small business, church, non-profit or other borrower has the information and the help they need to take full advantage of the Program. As I discuss below, if Congress choses to create a third round of the Program, it should be targeted at those industries that have suffered the most: hospitality, travel, conventions, and others. These industries are major employers in many regions and will need assistance until the economy has fully reopened in every state.

I am pleased to provide our perspective to this important discussion. My comments reflect my conversations with literally hundreds of community bankers from around the country.

Our Story

The Bank of Charles Town, or BCT, was founded in 1871 in Jefferson County, West Virginia by a group of 38 farmers, orchardists, and business leaders who believed a locally based bank would create an economic and stabilizing influence in Jefferson County. Thousands of community banks around the country were founded on that same vision. Today, BCT is a $620 million asset community bank with 108 employees serving the Eastern Panhandle of West Virginia as well as Hagerstown, Maryland and Loudoun County, Virginia.

Paycheck Protection Program

The Paycheck Protection Program (PPP) has rapidly and effectively deployed critical funding to small businesses and other borrowers nationwide. The Program has helped these businesses to maintain their employment, survive, and prepare for the reopening of the economy. We are in a better place today, poised for a robust recovery, because of the PPP. I thank this committee for your role in crafting the program.

The Program was a natural fit for the business model of community banks. We are small business lending specialists, and our strength is personal relationships in our communities and direct knowledge of local economic conditions. We were pre-positioned to help borrowers navigate the application process. There are countless stories of small businesses in desperate need that, unable to secure a PPP loan from a larger bank in a timely fashion, turned to a community bank where they were promptly and effectively served, despite sparse and often conflicting guidance from the SBA. Community bankers worked around the clock to meet an overwhelming demand for PPP loans from existing as well as new customers.

The data tells the story: In the first round, community banks made 60 percent of PPP loans which supported the retention of over 33.7 million employees. Moreover, of PPP loans where demographic data is available, community banks made 72.6 percent of the PPP loans to minority-owned small businesses, 71.5 percent of the PPP loans to women-owned small business, and 63.4 percent of the PPP loans to veteran-owned small businesses. I am proud that my industry stepped up to support the survival of these diverse businesses in a time of crisis.

My bank's PPP lending is typical of a community bank. In the first round, we made 557 loans with an aggregate value of nearly $55 million. Eighty-five percent of these loans were under $150,000. In the second round, we have seen approximately half the demand. To date, we have made 272 loans with an aggregate value of nearly $26 million. The loan size distribution in the second round has nearly matched the first round. Eighty-six percent of our loans have been under $150,000, and more than half of our second-round loans have been microloans of less the $50,000. In other words, our PPP lending, typical of a community bank, is disproportionately helping the smallest businesses.

Of course, the true purpose and value of the PPP is job preservation in an unprecedented economic crisis. BCT's first-round PPP lending has saved just over 4,000 jobs and the second round has supported 2,826 jobs thus far. This is an enormously positive impact in the small communities we serve and has staved off outright collapse. I know that other community banks have had similar results.

Bank of Charles Town Outreach to Marginalized Borrowers

We have found that a significant barrier to use of the PPP is lack of information and assistance that a potential applicant would need. The best way to serve and sustain our communities is not to passively receive applications. To overcome the information gap that prevents certain communities from taking full advantage of available resources, BCT is committed to conducting proactive outreach to potential applicants.

During the first round, we recorded podcasts and participated in local radio shows to educate the business community. In the second round, as we became aware that some minority communities did not have sufficient access to the Program, we initiated targeted programs to reach these communities. For example, BCT recently sponsored a webinar with the Jefferson County and Berkeley County, West Virginia NAACP. We recorded an educational webinar for the Loudoun County, Virginia NAACP which they made available for their members. Among the attendees, about 15 had not applied for a PPP loan before. We followed up with in-person meetings with five businesses to assist with paperwork gathering. Altogether we have helped 38 businesses to date obtain first draw loans in the second round. More than a few of these could not previously find help with paperwork or information or were declined as too small by their big bank.

It was soon apparent that the African American churches were generally not aware of their eligibility for a PPP loan. Just last week, one African American church in particular applied for a first draw loan. When we reviewed their application, we noticed that they could actually receive $4,000 but had only requested $2,000. They were concerned that it would not all be forgiven and did not want to have an outstanding loan should it not be forgiven. After additional education and coaching, they decided to take the full amount. This is the value that a community bank can add: Spreading awareness, technical assistance, and simply helping an applicant overcome any reservations with the program. Those that need PPP funds the most face the highest barriers to access. That's where we come in.

Approaching deadline must not strand applicants

As you know, the second round PPP closes three weeks from today on March 31. While demand for the Program has slowed, there are still business and non-profits that desperately need these funds. To maximize the value of the Program, our shared goal must be to ensure that every potential borrower that needs a loan gets one before the window closes.

At this moment, we are very concerned about thousands of applications that have been submitted to SBA but are in limbo because they were put on hold by an automated program for possible waste, fraud, or abuse. We also have borrowers who worked with large banks in the first round that have unresolved errors that are now holding up their applications in the second round. These applications require SBA review in order to be cleared of holds and be funded. Rejecting PPP applications made prior to the March 31st deadline, but not approved by the SBA before the program closes, would be unfair to the small business borrowers who desperately need these funds. We ask this committee's help in urging the SBA to recognize the urgency of their task and expedite review of these holds.

My bank will do everything in our power to complete and submit applications before the deadline. I'm sure that other community banks will do the same. But these efforts are futile unless the SBA commits to processing every application submitted before the deadline. We believe that any application submitted by March 31 should be eligible for approval and funding.

Changes contingent on Program extension

If Congress chooses to extend the PPP beyond March 31, ICBA urges Congress to make statutory fixes to resolve the problems identified below.

First Draw Increase Eligibility. Certain borrowers who have not yet filed for and received forgiveness of their first draw 2020 PPP loan may apply for an increase in that loan. However, borrowers whose first draw 2020 loans have already been forgiven cannot apply for a first draw loan increase, even if they otherwise meet the criteria for an increase. This is unfair because it punishes borrowers who filed forgiveness applications early. The statute should be amended to allow borrowers who have received first draw loan forgiveness to be eligible to receive a first draw loan increase.

Second Draw Eligibility. Those applying for a first draw in 2021 should be allowed access to a second draw. Above I told the story of an African American church that only last week applied for first draw loan. If that church had more information and better advice last year, it would have applied for a first draw loan in 2020 and would now be eligible for a second draw loan. The church has effectively left money on the table that could be used for critical expenditures. It should not be punished for not applying for a first draw loan in 2020.

Second Draw Use of Proceeds Requirement. Borrowers with a modest shortfall in using first draw dollars for eligible purposes shouldn't be shut out from second draw loans, especially if they've already repaid the remaining balance on the first draw loan. Congress should consider creating a percentage-based de minimis test to define a level of spending on ineligible expenses that would not disqualify a borrower for a second draw loan.

Farm Partnerships. Current law allows self-employed farmers and ranchers that report farm income on Schedule F to use the gross income method, rather than the net income method, to calculate their maximum loan amount and owner's compensation. However, SBA has limited this treatment to 1040 Schedule F filers. It is not available to thousands of self-employed farmers and ranchers whose businesses are organized as partnerships or S corporations. Congress should direct the SBA to make the gross income method available to these farmers and ranchers.

Schedule C Borrowers. Schedule C filers should be able to apply for an increase under new SBA rules that allow Schedule C borrowers to use the gross income method. One of our clients, a small video production company, is a schedule C business with no employees. Based on the net profit of his company, he qualified for a PPP loan of approximately $4,000 in each round. Because this was not enough to support him, we assisted him with an SBA Express Loan for $16,000.

Last week's rule change, which allow Schedule C businesses with no employees to use gross income rather than net profit to determine the loan amount, would have increased his PPP loan by $16,000 each time and would have tremendously boosted his ability to pay his expenses. We believe that Schedule C borrowers such as my customer should have the opportunity to increase their prior loans using the gross income method.

Save Our Stages Applicants. Live action venues eligible for Save Our Stages grants should be allowed to apply for PPP loans while waiting to find out if they will receive a grant. If such a venue eventually does receive a grant, the amount of the grant could be reduced by the amount of the PPP loan, thereby avoiding the double dipping prohibited by the statute.

Considerations for a third round of PPP

If Congress decides to create a third round of PPP, I believe that it should be targeted to those specific industries that have been most severely impacted by COVID restrictions, including restaurants and bars and the convention and travel industries, which employ a significant number of people nationwide. Until we reach true herd immunity, these industries will continue to operate under restrictions in many states. A third round of PPP could have a significant, positive impact on national employment.

Conclusion

Thank you again for convening today's hearing and for the opportunity to offer the community bank perspective on the Paycheck Protection Program.

I'm happy to answer any questions you may have.

AICPA

March 9, 2021

The Honorable Charles Schumer
Majority Leader
United States Senate
Washington, D.C. 20510

The Honorable Mitch McConnell
Minority Leader
United States Senate
Washington, D.C. 20510

The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Kevin McCarthy
Minority Leader
U.S. House of Representatives
Washington, D.C. 20515

RE: Request for Legislative Action on Paycheck Protection Program Deadline Extension

Dear Majority Leader Schumer, Minority Leader McConnell, Speaker Pelosi, and Minority Leader McCarthy:

The American Institute of CPAs (AICPA) thanks you for your continued efforts on the Paycheck Protection Program (PPP), which has helped millions of small businesses and not-for-profits by providing much needed support at this critical time. The 44,000 CPA firms the AICPA represents have a significant role in assisting millions of small businesses navigate the PPP. However, numerous significant PPP system issues and process changes are creating confusion for eligible organizations, their lenders, and our members who are working closely with PPP participants and lenders.

Compounding the confusion and stress, CPA practitioners are facing unprecedented work compression issues as they assist clients with PPP applications. These stressors include navigating client filings for the employee retention tax credit, guidance for which remains unclear, as well as preparing 2020 tax returns in a remote environment while COVID remains a pressing public health issue. Eligible organizations, particularly small and underserved businesses, and their advisors need more time to prepare PPP applications for submission. **With the PPP application deadline approaching on March 31, 2021, we urge Congress to extend the program application period by at least 60 days while remaining mindful of how an extended PPP deadline would interact with upcoming tax compliance deadlines.**

As trusted advisors to the small business community, accounting professionals worked diligently for nearly a year to help eligible borrowers appropriately and successfully apply for PPP loans. To help our members understand the program's benefits and challenges, the AICPA has organized regular AICPA Town Halls on the latest PPP developments;[1] created calculators for

[1] AICPA Town Hall Series https://www.aicpa.org/news/aicpatv.6237282791001.html/p/1667768385533799276/

PPP loan applications and PPP loan forgiveness;[2] and provided valuable PPP resources and recommendations via a dedicated webpage that is updated by technical experts within the AICPA. Our profession has seen firsthand how this federal program has had a meaningful impact on small business survival. New data and informal surveys show that CPA firms are helping many small businesses – those clients who have less than 10 employees – successfully apply for the PPP.

Distressingly, smaller businesses' ability to successfully apply in time for the current round of PPP funding is in jeopardy because of system problems, operational program changes, and recent Administration guidance. Those issues include:

- Acceptance of Eligible Draw One and Draw Two applications into the Small Business Administration (SBA) E-Tran system due to validation checks.[3] CPAs supporting small business applications are encountering countless examples where false error codes tied to validation checks are delaying critical help for small businesses.
- SBA processing and resolution delays for applications successfully submitted into the E-Tran system.
- Administration changes intended to prioritize PPP loans for small and under-served businesses. The changes are important to help those most in need, but last-minute guidance allowing some self-employed individuals to use a new, more generous PPP loan calculation unfairly impacts sole proprietorships that received a smaller PPP loan than which they would now be eligible. Critically, the change also gives some small businesses less than two weeks to submit a complete and accurate application.[4]

CPAs are working diligently to advise and assist their clients through an unusual and uniquely difficult tax filing season, with the added pressure and time constraints of working to assist small businesses with PPP applications and the need to file amended payroll tax returns for the Employee Retention Credit (ERC). Without an extension to the March 31 PPP application deadline, businesses, non-profits and the CPAs that advise them will struggle to get eligible applications submitted and funded.

The AICPA also supports an extension of this season's tax filing and payment deadline from April 15 to June 15, citing a delayed start to the 2020 filing season; a second round of PPP applications requiring practitioners to assist small business clients; changes to the ERC; and IRS service issues.[5] In that same vein, extending the PPP application deadline from March 31 to May

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[2] AICPA Offers Loan Forgiveness Calculator for Paycheck Protection Program https://www.aicpa.org/press/pressreleases/2020/aicpa-offers-loan-forgiveness-calculator-for-coronavirus-ppp.html

[3] AICPA Urges the Small Business Administration to Address Small Businesses' Significant Challenges with PPP Loan Application System https://future.aicpa.org/news/article/aicpa-urges-the-small-business-administration m

[4] AICPA Says Sole Proprietors Are Unfairly Impacted by PPP Deadline and Latest SBA Guidance https://future.aicpa.org/news/article/aicpa-says-sole-proprietors-are-unfairly-impacted-by-ppp-deadline-and-latest ml

[5] AICPA Comments on Postponement for the Filing and Payment Deadline for the 2020 Tax Year https://www.aicpa.org/content/dam/aicpa/advocacy/tax/downloadabledocuments/56175896-filing-deadline-for-the-2020-tax-year-final.pdf

31, while also delaying the April 15 tax filing and payment deadline to June 15, enables businesses the time to apply for PPP loans and ease workload compression issues for the practitioners who support them.

Thank you for your continued work on PPP to ensure this aid reaches those small businesses and non-profits desperately in need of economic relief. The AICPA and our members continue to be deeply committed to ensuring the success of this program, and we welcome even more open and extensive public-private coordination on these matters.

* * * * *

The AICPA is the world's largest member association representing the CPA profession, with more than 431,000 members in the United States and worldwide, and a history of serving the public interest since 1887. Our members advise clients on federal, state and international tax matters and prepare income and other tax returns for millions of Americans. Our members provide services to individuals, not-for-profit organizations, small and medium-sized businesses, as well as America's largest businesses. If you have any questions, please contact Lauren Pfingstag, AICPA Director - Congressional and Political Affairs, at (407) 257-0607 or lauren.pfingstag@aicpa-cima.com.

Sincerely,

Barry C. Melancon, CPA, CGMA
President and CEO, AICPA

cc: The Honorable Ben Cardin, Chairman, U.S. Senate Committee on Small Business and Entrepreneurship
The Honorable Nydia Velázquez, Chairwoman, U.S. House Committee on Small Business
The Honorable Rand Paul, Ranking Member, U.S. Senate Committee on Small Business and Entrepreneurship
The Honorable Blaine Luetkemeyer, Ranking Member, U.S. House Committee on Small Business

Credit Union National Association
CUNA

Jim Nussle
President & CEO

Phone: 202-508-6745
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99 M Street SE
Suite 300
Washington, DC 20003-3799

March 10, 2021

The Honorable Nydia M. Velázquez
Chairwoman
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

The Honorable Blaine Luetkemeyer
Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

Dear Chairwoman Velázquez and Ranking Member Luetkemeyer,

On behalf of America's credit unions, I am writing regarding the hearing entitled, "The Next Steps for the Paycheck Protection Program." The Credit Union National Association (CUNA) represents America's credit unions and their more than 120 million members.

Credit unions were proud participants in the Small Business Administration's (SBA) Paycheck Protection Program (PPP). In fact, some credit unions were so eager to help their members through this program that they participated even though they had no previous relationship with the SBA. However, the quick implementation and slow bureaucracy at the SBA lead to significant and well documented problems for even the most experienced SBA lenders.

The PPP has played an important role in keeping small businesses and their employees afloat during this crisis. Credit unions helped Main Street America by facilitating more than 200,000 PPP loans that averaged just $47,000. With the passage of H.R. 133, the Consolidated Appropriations Act, we appreciate Congress' inclusion of language to simplify the forgiveness process for certain loans and allowing lenders and small business owners to remain focused on serving their communities rather than jumping through burdensome regulatory hoops. Further, we acknowledge and appreciate the leadership of Senators Cramer, Menendez, Tillis, and Sinema, and Representatives Houlihan and Upton in ensuring that this provision was included in H.R. 133.

In addition, we appreciate that H.R 133, which was enacted on December 27, 2020, included an additional authorization of $284 billion in new PPP lending. This funding is much needed but likely insufficient to cover the need of struggling small businesses. We urge Congress to consider additional PPP funding in 2021.

Looking forward, beyond PPP, small businesses across the country will continue to be in need of funds and credit unions are in a position to pump billions of capital into the economy. There's only one obstacle: an arbitrary credit union Member Business Lending (MBL) cap which currently limits credit union lending activity to 12.25% of assets.

Even temporarily lifting the cap will result in more credit union business lending. While credit union business lending has increased greatly since the Great Recession, many credit unions are now approaching the 12.25% of assets cap. Representatives Sherman and Fitzpatrick recently introduced legislation (H.R. 1471) that would lift the cap for the duration the COVID-19 pandemic and for one year following its declared end. We conservatively estimate that temporarily removing the MBL cap, this legislation will provide over $5.5 billion in capital to small and informal business ventures, creating nearly 50,000 over the course of the next year[1].

Additional credit union lending will not impede bank lending activity. SBA research shows that growth in credit unions' small business lending is apparent in many respects but a majority of credit union business lending is for loans that banks won't originate – which means a majority of credit union lending does not replace lending that would otherwise be done by banks – it is lending that otherwise would not occur[2]. SBA research specifically shows that roughly 80% of credit union business loans are loans that banks would not make.

Small businesses and communities around the country are suffering and need access to relief. As you continue your work to provide funding and resources to our small businesses, I would encourage you to support and include H.R. 1471 to ensure credit unions are able to fully serve their communities.

Sincerely,

Jim Nussle
President & CEO

[1] CUNA estimate assumptions: 1. Grandfathered CUs, Non-Federally Insured and/or Low-Income designated do not increase lending; 2. Non-Commercial lenders lend in amount equal to 1% of assets on average under the new authority; 3. All other Commercial CUs lend in amount equal to 60% of their current use rate; 4. Estimates produced using assumptions 1-3 are further adjusted as follows: * CUs with net worth/assets <=6% are assumed to have no Commercial Loan growth* CUs with net worth/assets between 6% and 7% remain at the current 12.25% cap. * CUs with Comm Lns/assets >= 10% are limited to a 30% increase in Commercial Loans in the 1st year. 5. First year increases; baseline estimate = 50% of new use rate; adjusted/conservative estimate = 40% of new use rate. 6. Employment increase is based on Council of Economic Advisors 5/09 ARRA job creation estimates ($92,000 in spending creates 1 job / $109,633 in 2019 dollars).

[2] Wilcox, James A., The Increasing Importance of Credit Unions in Small Business Lending. Small Business Administration Office of Advocacy (2011).

/ inclusiv /

March 10, 2021

The Honorable Ben Cardin
Chairman
Senate Small Business and Entrepreneurship Committee
509 Hart Senate Office Building
Washington, DC 20510

The Honorable Nydia Velazquez
Chairwoman
House Small Business Committee
2302 Rayburn House Office Building
Washington, DC 20515

The Honorable Rand Paul
Ranking Member
Senate Small Business and Entrepreneurship Committee
167 Russell Senate Office Building
Washington DC, 20510

The Honorable Blaine Luetkemeyer
Ranking Member
House Small Business Committee
2230 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Cardin, Ranking Member Paul, Chairwoman Velazquez and Ranking Member Luetkemeyer,

Inclusiv respectfully requests your intervention and support to ensure that all sole proprietors and schedule C filers are able to take advantage of and obtain the maximum benefit of relief under the Paycheck Protection Program.

Specifically, we urge you to codify and make retroactive administrative changes announced last week to ensure that sole proprietors, independent contractors, and self-employed individuals can have fair and meaningful access to PPP relief. Doing so would ensure that entrepreneurs in both urban and rural areas can access the same changes that Congress enacted for ranchers and farmers as part of the December Economic Aid Act. We also seek an extension of PPP until June 30, 2021 to ensure sole proprietors and Schedule C filers who may have been discouraged to be reached.

Inclusiv is a national network representing 356 community development credit unions and financial cooperatives –most of them, CDFI certified, low income designated and/or MDIs— serving 12 million people in the low-income communities and communities of color around the country. Inclusiv network members are on the front lines delivering capital to people and communities most severely impacted by the recent public health and economic crises.

Inclusiv has been a tireless advocate and resource for our network members participating in the SBA's Paycheck Protection Program, lifting up the voices to point out challenges and propose program improvements. We supported more than 100 community development credit unions to originate $1.75 billion in PPP loans in 2020, with an average loan size of less than $60,000. Our network members have

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continued to engage in PPP lending in 2021, many of whom took advantage of the early access window that enabled CDFIs and other community lenders to small businesses to begin originating loans early to avoid the crush.

We had raised the concerns that the calculation of PPP loans to Schedule C filers based on net income was not sufficient to help these tiny businesses and entrepreneurs face the challenges of maintaining their businesses during the pandemic.

We were gratified by SBA's interim rule last week enabling borrowers to qualify for PPP loans based upon their gross income. This is a difference of thousands of dollars for households living on very tight margins. However, it has placed the lenders and the borrowers in a difficult position of having promoted aggressively early filing to ensure access to microbusinesses and minority small businesses, but in so doing depriving inadvertently so many from realizing the full gains that they would now be entitled.

To illustrate how important it is to make the administrative adjustment codified into law and applied retroactively, I would like to share these two examples:

> A minority and woman owned day care business in Rochester, NY sought a PPP loan early in this round from her local credit union. The credit union submitted the loan early in the program with concerns that very small businesses not be left behind so the loan was processed before the administrative change took effect. The calculation was made based on net income (Line 31 of the Schedule C) which was $21,857 and the business was qualified to receive a $4,553 PPP loan. If they had been able to use her gross income of $48,199, the business owners would have qualified for a $10,041 loan, a difference $5,488.
>
> Another black owned boutique in Alabaster, Alabama sought to apply for PPP2. This business qualified under the old rules for a PPP loan of $7,469. With the changes, she would qualify for a loan of $22,659.

The difference in loan amounts for these very small businesses are critical.

We recognize that the limitations of the rulemaking require congressional action to make the change retroactive and ensure equitable access to aid for microbusinesses. The Economic Aid Act passed by Congress in December provided retroactive relief for small farmers and ranchers who file Schedule F forms, including the ability to increase any PPP loans received prior to the law's enactment. Prior to the enactment of this package, Schedule F filers and Schedule C filers were treated the same under SBA guidelines. We urge Congress to see that as a precedent and provide similar relief to these small microbusinesses.

/ inclusiv /

We urge you to pass legislation ensuring the new criteria for Schedule C filers are retroactively applied as outlined above and extending the PPP deadline until June 30, 2021. If you have any questions, please contact me at cmahon@inclusiv.org or Pablo DeFilippi, SVP of Membership and Network Engagement at pablo@inclusiv.org.

Sincerely,

Cathleen A. Mahon
President and CEO

March 5, 2021

The Honorable Benjamin Cardin
Chairman
U.S. Senate Committee on Small Business
& Entrepreneurship
Washington, D.C. 20510

The Honorable Rand Paul
Ranking Member
U.S. Senate Committee on Small Business
& Entrepreneurship
Washington, D.C. 20510

The Honorable Nydia Velazquez
Chairwoman
U.S. House Committee on Small Business
Washington, D.C. 20515

The Honorable Blaine Luetkemeyer
Ranking Member
U.S. House Committee on Small Business
Washington, D.C. 20515

Dear Chairmen Cardin, Chairwoman Velazquez, and Ranking Members Paul and Luetkemeyer:

We the undersigned trade associations, representing thousands of banks and credit unions that serve America's small businesses, write to request that you urge the U.S. Small Business Administration (SBA) to make every effort to clear the thousands of loan holds currently in the Paycheck Protection Program (PPP). In addition, to ensure that small businesses owners have full access through the intended program period, we would request that any PPP loan application that has been submitted to the SBA by March 31, 2021 be eligible for subsequent SBA approval, which will provide the necessary time to allow for completion and funding. This change will allow for all eligible small businesses currently held up by loan holds or process delays to receive much needed funding.

As you may know, since the PPP reopened earlier this year, SBA has implemented a series of automated checks on all incoming loan applications in an attempt to minimize waste, fraud, and abuse of funds. Though an important step, this check slows down the approval process of a PPP loan. Further, when a loan is flagged by certain hold codes, lenders are unable to resolve the issue and the loan application enters into a gray area where SBA review is required. SBA has stated they will work to resolve any hold codes expeditiously. However, in practice, this review process has led to thousands of PPP borrowers having their applications on hold for several weeks or longer.

With the approaching authorization expiration date of March 31, 2021, we have serious concerns that many of these loans currently tagged with a hold code will remain outstanding through this date. We also have concerns that new loans uploaded to SBA's portal this month will be outstanding when the portal shuts down. As a result, those businesses that should have been eligible to receive PPP funds – including those in hardest hit communities who may not have taken advantage of PPP last year – will be locked out and unable to access this much needed emergency capital.

Since its inception the PPP has served a vital role in helping millions of small businesses survive. As this program reaches its current congressionally authorized sunset date, thousands of our nation's small businesses have filed or intend to file applications for this critical economic lifeline. They should be given the opportunity to receive these funds through the full program authorization period.

Thank you for your consideration of this important issue and our members stand ready to complete all loans impacted by hold codes or that are in process on March 31, 2021.

Sincerely,

American Bankers Association
Bank Policy Institute
Community Development Bankers Association
Consumer Bankers Association
Credit Union National Association
Financial Services Forum
Independent Community Bankers of America
National Association of Federally-Insured Credit Unions
National Association of Government Guaranteed Lenders
National Bankers Association

NADCO
National Association of Development Companies

March 2, 2021

The Honorable Nydia Velasquez
Chairwoman
Committee on Small Business
United States House of Representatives
2361 Rayburn House Office Building
Washington, DC 20515

The Honorable Blaine Luetkemeyer
Ranking Member
Committee on Small Business
United States House of Representatives
2361 Rayburn House Office Building
Washington, DC 20515

Dear Chairwoman Velazquez and Ranking Member Luetkemeyer:

I write on behalf of the National Association of Development Companies (NADCO) and our Certified Development Company (CDC) members across the country to thank you for your leadership and collaboration on legislation impacting the small businesses we serve.

The introduction of the 504 Modernization and Small Manufacturer Enhancement Act of 2021 and the 504 Credit Risk Management and Improvement Act of 2021 will provide the CDC community with tremendous tools to assist small businesses in the recovery process and help them grow and create jobs while ensuring the long-term health of the 504 program. We also appreciate the contributions and dedication to small businesses of Representatives Angie Craig and Dan Bishop in leading these bills, and Representatives Steve Chabot, Young Kim, and Angie Craig for cosponsoring this legislation.

These are difficult and uncertain times for small business owners as the COVID-19 pandemic continues to create uncertainty and distress. CDCs have been on the frontline working to sustain their existing business borrowers while also offering relief, strategic advice and financing to businesses trying to adapt to the post COVID-19 economy. We are particularly pleased these bills include enhancements of 504 lending to small manufacturers, streamlined loan closings, enhanced oversight, modifications to occupancy requirements, and other provisions that will support and augment the work that our members do every day to support and grow healthy and sustainable businesses and communities.

The primary mission of the SBA 504 Loan Program is to foster local economic development and job opportunities by providing small businesses with access to affordable long-term capital. This legislation will help all CDCs pursue this mission more effectively and responsibly. NADCO appreciates the congressional support for our mission to deliver critical capital in communities across the country and efforts to strengthen the 504 program for its longevity.

Thank you for your leadership and commitment to small businesses.

Sincerely,

Rhonda D Pointon

Rhonda Pointon
President & CEO

cc:
The Honorable Ben Cardin, Chairman, Senate Committee on Small Business & Entrepreneurship
The Honorable Rand Paul, Ranking Member, Senate Committee on Small Business & Entrepreneurship

NAFCU
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National Association of Federally-Insured Credit Unions

March 9, 2021

The Honorable Nydia Velázquez
Chairwoman
Committee on Small Business
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Blaine Luetkemeyer
Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, D.C. 20515

Re: Tomorrow's Hearing, "The Next Steps for the Paycheck Protection Program"

Dear Chairwoman Velázquez and Ranking Member Luetkemeyer:

I am writing on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) in conjunction with tomorrow's hearing, "The Next Steps for the Paycheck Protection Program." As you are aware, NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 123 million consumers with personal and small business financial service products. We thank you for providing credit unions with important tools, such as the Paycheck Protection Program (PPP), to help their small business members during this pandemic. We would like to take this opportunity to share how credit unions have been able to help their communities through the PPP, as well as our recommendations to ensure maximum efficacy of the program in what we hope is the homestretch of this pandemic.

As you know, credit unions have stepped up to ensure small businesses in their communities are taken care of during these uncertain times, and their response through the first two rounds of the PPP was tremendous. Despite the uncertainty surrounding the PPP as it launched and the associated risks, credit unions did all they could to ensure their existing and new small business members were taken care of. According to a NAFCU survey, 87 percent of NAFCU members reported providing PPP loans to new members and businesses that were turned away by other lenders and came to their credit union to apply for a PPP loan. Moreover, compared to other types of lenders, credit unions disproportionately helped the smallest of small businesses. An analysis of the Small Business Administration's (SBA) PPP data from the first two rounds shows that credit unions made loans in amounts much lower than the national average, with the credit union average PPP loan approximately $50,000. Furthermore, a full 70 percent of credit union PPP loans went to businesses with less than five employees.

We were pleased to see that Congress passed the *Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act* (Economic Aid Act) as part of the year-end stimulus package. The Economic Aid Act contained important support for our nation's small businesses, including authorization of a second PPP loan for the hardest-hit small businesses, simplifying loan forgiveness for PPP loans under the $150,000 threshold, and repealing the deduction of Economic Injury Disaster Loan (EIDL) advances from the PPP loan forgiveness amount. However, we have heard from many of our members that the loan forgiveness process is still in need of administrative simplification and there has been an inconsistency in the length of time SBA is taking to administer forgiveness. We request the Committee implore the SBA to provide quicker loan forgiveness reviews and more proactive and transparent information for lenders.

Additionally, as we wrote to you last week with a coalition of other financial services trade organizations, we ask that you urge the SBA to make every effort to clear the thousands of loan holds currently in the PPP. Moreover, to ensure that small businesses have full access to the PPP through the March 31, 2021 deadline, we ask that any PPP loan applications submitted by the deadline be eligible for subsequent SBA approval even if they are held up by loan holds or process delays. While we appreciate that the SBA has implemented a system of automated checks on all applications to minimize waste, fraud, and abuse of funds, this check slows the approval process and certain hold codes require SBA review to be resolved. We are concerned that many loans with a hold code or submitted later this month will remain outstanding through the March 31, 2021 deadline, locking out eligible small businesses.

Our credit unions report that while demand for PPP loans is lower than a year ago, there is still significant demand and small businesses are still very much in need of this emergency capital. If there is an appetite in Congress for a further extension of the PPP, we ask that you enact the extension before the current program expires. Stopping and re-starting the program would result in inefficiencies and administrative headaches that would increase costs for credit unions to administer the program, as well as create unnecessary challenges for small business borrowers.

Furthermore, as the Committee is aware, the SBA issued an Interim Final Rule (IFR) on March 3, 2021 that implements a revised PPP loan calculation formula for Schedule C filers, including sole proprietors, independent contractors, and self-employed individuals. The revised formula allows these small businesses to calculate their loan amount based on gross income rather than net profit, allowing them to qualify for larger loans. As you also know, the SBA has limited this application to new applicants, preventing existing borrowers from benefitting from the changes. We ask that you urge the SBA to make the IFR retroactive so all Schedule C filers, who are truly the smallest of small businesses, can benefit from the policy change.

Finally, the economic impact of COVID-19 and the credit needs of small businesses will be with us beyond the short-term bridge provided by the PPP. While increasing the scope of other SBA programs will help with the recovery, we need to ensure that small businesses have access to as many potential sources of capital as possible. With that in mind, we believe that Congress should consider legislation to exclude credit union member business loans made in response to COVID-19 relief from the credit union member business lending (MBL) cap, such as H.R. 1471, the *Access to Credit for Small Businesses Impacted by the COVID–19 Crisis Act of 2021*, introduced last week by Representatives Brad Sherman (D-CA) and Brian Fitzpatrick (R-PA). This proposal had bipartisan support in the House last Congress in the form of H.R. 6789, the *Access to Credit for Small Businesses Impacted by the COVID-19 Crisis Act of 2020*, and similar legislation was also introduced in the Senate. On April 16, 2020, a bipartisan group of 65 representatives wrote to House leadership to urge this issue be included in future pandemic relief. Moreover, National Credit Union Administration (NCUA) Board Chairman Todd Harper and Board Member Rodney Hood have voiced their support for MBL cap relief as a step to make it easier for credit unions to do more to help small businesses in light of the pandemic.

We thank you for the opportunity to share our perspective on this important topic in advance of this hearing. Should you have any questions or require any additional information, please contact me or Sarah Jacobs, NAFCU's Associate Director of Legislative Affairs, at (571) 289-7550.

Sincerely,

Brad Thaler

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the U.S. House Small Business Committee

NATIONAL ASSOCIATION OF REALTORS®

Charlie Oppler
2021 President

Bob Goldberg
Chief Executive Officer

ADVOCACY GROUP

Shannon McGahn
Chief Advocacy Officer

March 10, 2021

The Honorable Nydia Velázquez
Chairwoman
U.S. House Committee on Small Business
2302 Rayburn House Office Building
Washington, DC 20515

The Honorable Blaine Luetkemeyer
Ranking Member
U.S. House Committee on Small Business
2230 Rayburn House Office Building
Washington, DC 20515

Dear Chairwoman Velázquez and Ranking Member Luetkemeyer:

On behalf of the 1.4 million members of the National Association of REALTORS®, thank you for holding this hearing, "The Next Steps for the Paycheck Protection Program." Congress acted quickly in 2020 to pass the CARES Act, which created critical relief programs for small businesses that were forced to close or reduce operations due to the pandemic, and it has since acted to reauthorize and improve those programs. As the pandemic goes on, Congress must continue to protect these critical economic drivers and other businesses at risk.

Although small businesses remain in danger in the wake of COVID-19, they have been bolstered by the Small Business Administration Paycheck Protection Program (PPP) and Economic Injury Disaster Loans. PPP loans have provided crucial assistance to numerous entities impacted by the pandemic, allowing them to keep employees paid and meet other debt and financial obligations. NAR was pleased that Congress reauthorized and provided new funding for the PPP in the two recent COVID-19 relief packages, as this allows new borrowers to access these loans and makes second-draw loans available to the hardest-hit small businesses. However, the deadline for applying for a loan has not been extended past March 31, 2021 – a date that is quickly approaching. At such a crucial juncture for small businesses and with a return to normalcy on the horizon, it is critical that Congress not prematurely cut-off aid that may make the difference between a business remaining open or having to permanently close.

NAR also appreciates the steps taken by the Biden Administration to improve the PPP, including the two-week period during which only the smallest businesses could apply and the changes to the loan amount calculations for independent contractors, sole proprietors, and the self-employed. These changes increase the equity of the program, allowing potential borrowers that may have had difficulty accessing the loans earlier a fair shot, and also better reflect the actual income of the "Schedule C filers" category. The loan calculation updates are only available to new Schedule C filer applicants however, meaning many who already received loans got less

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than they would now be eligible for. Congress should amend the program to allow those early participants to receive the difference in the loan amount they might now be eligible for, instead of unnecessarily penalizing them simply because they already received their loans.

Again, thank you for holding this important hearing. We look forward to continuing to work with you to help small businesses survive this crisis and lead in our nation's economic recovery.

Sincerely,

Charlie Oppler
2021 President, National Association of REALTORS®

cc: U.S. House Committee on Small Business

NFIB

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Washington, D.C. 20004

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NFIB.com

March 10, 2021

The Honorable Nydia M. Velázquez
Chairwoman
Committee on Small Business
U.S. House of Representatives
2361 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Blaine Luetkemeyer
Ranking Member
Committee on Small Business
U.S. House of Representatives
2069 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairwoman Velázquez and Ranking Member Luetkemeyer:

On behalf of NFIB, the nation's leading small business advocacy organization, thank you for holding this important hearing titled *"The Next Steps for the Paycheck Protection Program."* The Paycheck Protection Program (PPP) has served as a vital financial assistance tool for over five million of our nation's small businesses. NFIB appreciates your leadership, which has been critical to making this program a success.

While the ramping up of COVID-19 vaccinations across the country is encouraging, NFIB research continues to demonstrate that it remains a challenging time for our nation's small businesses. According to NFIB's latest monthly survey released yesterday, small business optimism improved slightly but still remains below its historic 47-year average. Small business owners expecting better business conditions over the next six months increased four points but remains at a net negative 19%, a poor reading.[1] The economic recovery continues to be uneven for small businesses, especially those still managing state and local regulations and restrictions, with 15% recently reporting that they will have to close their doors if current economic conditions do not improve over the next six months.[2]

The PPP will continue to play a vital role for many small businesses to keep employees on payroll and assist with certain business expenses. To that end, several additional legislative and regulatory modifications to the program will help our nation's small businesses during this

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[1] William C. Dunkelberg and Holly Wade, *NFIB Small Business Economic Trends*, NFIB Research Center, February 2021, https://www.nfib.com/surveys/small-business-economic-trends/.
[2] Holly Wade, *Covid-19 Small Business Survey (15) – PPP, ERTC, the Economy, the Vaccine, and Minimum Wage*, NFIB Research Center, January 28-31, 2021, https://assets.nfib.com/nfibcom/Covid-19-15-Questionnaire_.pdf.

important period of transition. As the committee looks to next steps for PPP, NFIB submits the following priorities and recommendations:

1. Extend the authorization for PPP beyond March 31, 2021
2. Align the forgiveness process for loans under $150,000 with Congressional intent
3. Relax the qualifying quarter requirement to access second draw loans
4. Allow self-employed individuals that applied for a PPP loan prior to the SBA's March 3, 2021 interim final rule to reapply for a larger loan amount

1. <u>Extend the authorization for PPP beyond March 31</u>

As discussed above, economic conditions remain challenging for small businesses and will likely remain so well beyond the end of this month when PPP's authorization is presently scheduled to expire. For that reason, it is NFIB's belief that the current timeline for access to the PPP program is too truncated and does not make sense given the state of economic recovery.

According to NFIB research, about 30% of small businesses who did not previously receive a first-draw PPP loan have either applied, are planning to apply, or are considering applying. Similarly, of those small business owners who received a first-draw PPP loan in 2020, 30% have already applied for a second-draw PPP loan, 11% are planning to apply for one, and another 12% are considering whether to apply. These numbers generally align with previous surveys that found about half of small business owners anticipated needing additional financial support over the next 12 months.[3] This research indicates that small business demand for additional PPP support continues to be substantial with a number of small businesses still assessing their needs in light of ever-changing circumstances on the state and local level.

Unfortunately, as many small businesses continue to evaluate their needs, the timeframe for making decisions regarding a first or second draw PPP loan remains short. As you are aware, access to PPP did not become available again following passage of the *Consolidated Appropriations Act of 2021* until January 11, 2021 for first round loans and January 13, 2021 for second round loans. The Biden Administration's 14-day exclusivity period for businesses and nonprofits with fewer than 20 employees and other reforms broadening access only began on February 24, 2021. On top of already tight timelines, these resources may only be available for a very short window before the authorization expires.

Much as Congress did in May of last year with the passage of H.R. 7010, the *Paycheck Protection Program Flexibility Act of 2020*, it now makes sense to extend the PPP program authorization to allow more time for businesses to have access to this vital program. NFIB requests that the

[3] Holly Wade, *Covid-19 Small Business Survey (15) – PPP, ERTC, the Economy, the Vaccine, and Minimum Wage*, NFIB Research Center, January 28-31, 2021, https://assets.nfib.com/nfibcom/Covid-19-15-Questionnaire_.pdf.

committee come together and pass legislation extending the authorization of PPP to allow small businesses additional time to assess their needs and access the program.

2. Align the forgiveness process for loans under $150,000 with Congressional intent

NFIB appreciates the work of this committee to help our nation's smallest businesses with an expedited forgiveness process as part of the *Consolidated Appropriations Act of 2021*. Unfortunately, implementation of this expedited forgiveness by the Small Business Administration (SBA) has not matched Congressional intent.

Under Section 307 of the *Consolidated Appropriations Act of 2021*, Congress directed that loans of less than $150,000 "shall" be forgiven if the eligible recipients signs and submits to the lender a simple certification of the number of employees retained because of the covered loan, the estimated amount of the covered loan spent on payroll costs, the total loan value, and an attestation that the borrower has accurately provided the certification and retained records. Unfortunately, the SBAs simplified application 3508S, as amended, contains a full-time employee (FTE) and Salary/Wage reduction calculation for loans over $50,000 that was not intended by Congress.[4] These FTE and Salary/Wage reduction calculations are incredibly complicated and time consuming to navigate for small businesses.

NFIB believes borrowers with loans of less than $150,000 should be subject to the same terms and conditions as the original 3508S form (for loans of $50,000 or less). The SBA should revise this process to match congressional intent more closely with respect to small loan forgiveness. In the alternative, the committee should further direct this change via future legislation relating to PPP.

3. Relax the qualifying quarter requirement to access second draw loans

As you are aware, to qualify for a second draw PPP loan, businesses must demonstrate at least a 25% reduction in gross receipts between comparable quarters in 2019 and 2020. This provision is likely to prove problematic for some small businesses who are deserving of additional PPP support. NFIB recommends it be revised to allow additional, deserving businesses access to a second draw loan.

Revenue cycles for small businesses, such as those in the tourism and hospitality industries, often do not follow quarterly cycles. Additionally, many small businesses experienced their greatest revenue loss over two quarters from March through May of 2020, when businesses faced the most serious restrictions and business foot traffic was at its lowest levels. For this reason, it makes sense to adjust the calculation to a comparable time period, such as 90 consecutive days between 2020 and 2019, to determine the necessary reduction in gross receipts rather than via calendar quarter.

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[4] Section 307(a)(i)(3) created the simplified application process, which requires, *"(aa) a description of the number of employees the eligible recipient was able to retain because of the covered loan,"* but does not require the more extensive calculations.

An amendment to this effect was offered by Representative Dan Meuser (R-PA) during consideration of the *American Recovery Plan Act of 2021* by the committee.[5] At the time, the amendment was rejected due to fear that the amendment would not comply with the committee's reconciliation instructions because a cost estimate was unavailable. NFIB recommends the committee reconsider this important proposal outside of the reconciliation process.

4. Allow self-employed individuals that applied for a PPP loan prior to the SBA's March 3, 2021 interim final rule to reapply for a larger loan amount

On March 3, 2021, the SBA issued a new interim final rule, *Business Loan Program Temporary Changes; Paycheck Protection Program-Revisions to Loan Amount Calculation and Eligibility*, which allowed self-employed individuals who file IRS Form 1040, Schedule C, Profit or Loss From Business, to calculate their maximum loan amount using gross income instead of net profit.[6] This important change will allow self-employed individuals, many of whom do not record large net profits, to access larger first and second draw PPP loans.

Unfortunately, the SBA has indicated this change applies to new loan applications, leaving out self-employed individuals who previously applied for PPP. NFIB supports changing this requirement to allow individuals with unforgiven first or second round loans to reapply for a larger loan amount. The committee should work with the SBA to make this change regulatorily or direct it via legislation.

Again, thank you for holding this hearing on such an important topic. NFIB looks forward to continuing to work with you to assist small businesses during this challenging time.

Sincerely,

Kevin Kuhlman

Kevin Kuhlman
Vice President, Federal Government Relations
NFIB

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[5] Rep. Dan Meuser, Amendment 1v1, *Committee markup of Reconciliation Instructions for the American Recovery Plan Act of 2021*, February 10, 2021, available at: https://smallbusiness.house.gov/uploadedfiles/02-10-21_mr._meuser_amendment_1v1.pdf.
[6] Small Business Administration, *Business Loan Program Temporary Changes; Paycheck Protection Program-Revisions to Loan Amount Calculation and Eligibility*, Interim Final Rule, Federal Register, March 8, 2021, https://www.federalregister.gov/documents/2021/03/08/2021-04795/business-loan-program-temporary-changes-paycheck-protection-program-revisions-to-loan-amount.